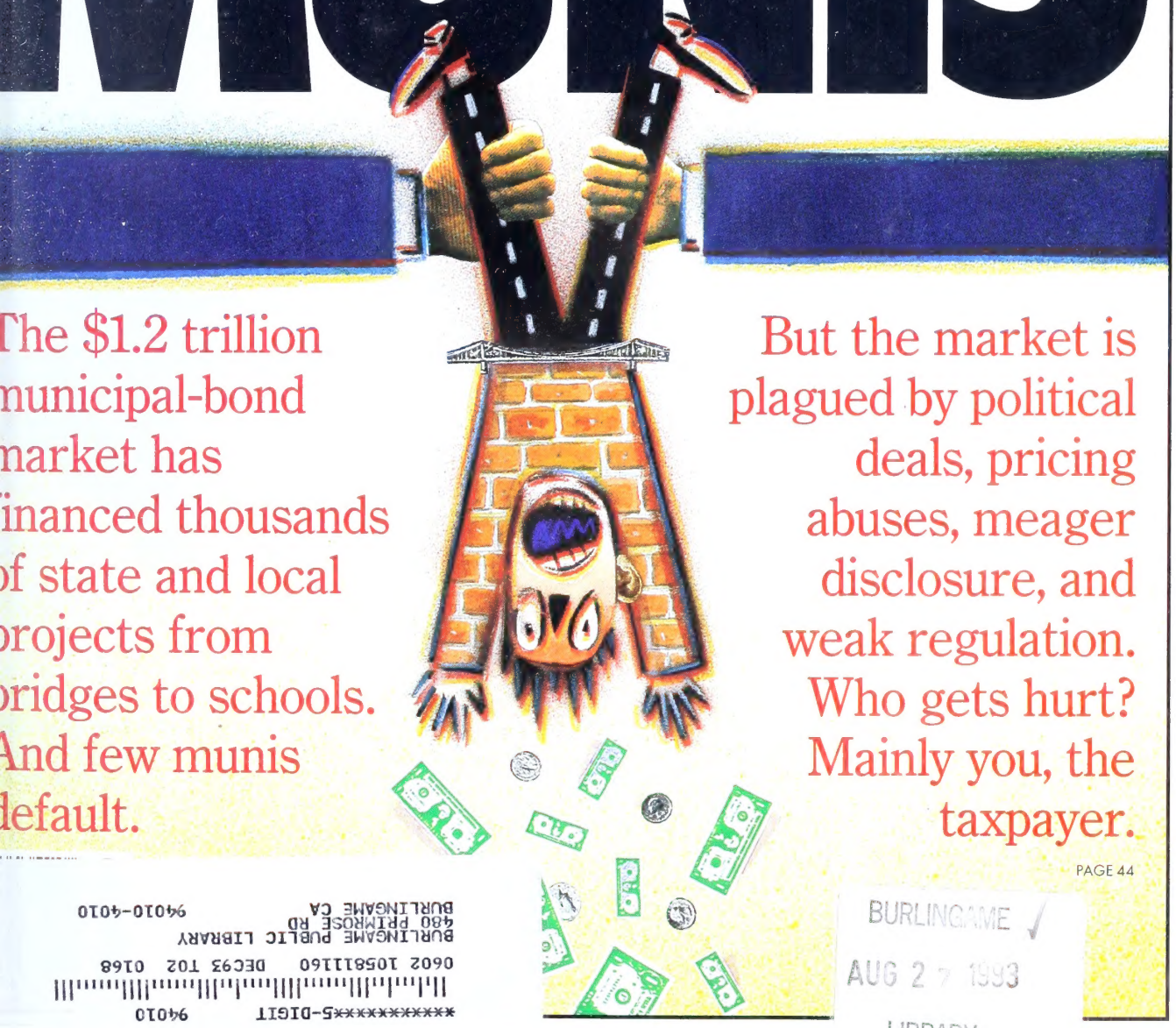
BusinessWeek

EMBER 6, 1993 A McGRAW-HILL PUBLICATION $2.75

THE TROUBLE WITH MUNIS



The $1.2 trillion municipal-bond market has financed thousands of state and local projects from bridges to schools. And few munis default.

But the market is plagued by political deals, pricing abuses, meager disclosure, and weak regulation. Who gets hurt? Mainly you, the taxpayer.

PAGE 44

Why PowerBook is popular with people in upper management.

Keeps people connected. *PowerBook makes it easy to stay connected to all your office resources, from e-mail to databases.*

Keeps people productive. *PowerBook runs thousands of Macintosh® programs, and with the right software, it can also run MS-DOS and Windows programs.*

Keeps people going. *Wi… toll-free support line, you'… got fast, easy answers to a… your PowerBook question… anywhere in the U.S.*

Ready to share. *Using software provided in the optional PowerBook/DOS Companion, the built-in Apple SuperDrive™ floppy drive can read from and write to disks formatted in the MS-DOS and Windows worlds.*

Desktop power. *PowerBook is light and slim, but fully powered. With a fast Motorola 68030 processor, there are models available with hard disk storage up to 160MB and memory expandable to 24MB.*

With hundreds of notebook computers to choose from, business has made Apple® PowerBook™ computers the best-selling notebooks in America.

That's because managers and business leaders like yourself often approach such critical decisions with one simple yet searing question: "Which one can make our people more productive?"

PowerBook is built upon the premise that people are most effective in their jobs when they have the best tools to communicate. So it is designed to give people a fast, simple way to connect to the office and share data with other computers (including those running MS-DOS and Windows).

Because it has been designed to work so intuitively, PowerBook makes life much easier for users. Which in turn substantially eases the burden carried by your computer support …

With a wide range of PowerBook mode… choose from, you can now give all your pe… full-featured notebook computers that me… their needs. Or choose the PowerBook Du… System, which transforms from an expand… desktop computer into a 4.2-pound notebo… giving users the best of both worlds.

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Desktop-compatible. *The optional PowerBook/DOS Companion™ kit makes it easy to work with the MS-DOS and Windows files, printers and monitors you already have. So your investments keep working.*

y to connect. *PowerBook orts for easy connections to al modems and hard disks. verything you need to share nd printers is built in.*

PowerBook is not only popular with the peo- who buy their companies' computers, it's popular with the people who use them. Not in planes, trains and ferries, but in clients' ces, branch offices and home offices. That's because PowerBook isn't just a smaller sion of a desktop computer system. It has n designed specifically to make life easier for ple whose jobs tend to take them outside confines of the office.

PowerBook is a full-featured computer, so it can run all of today's most advanced business programs—yet it weighs as little as 4.2 pounds.

Its award-winning industrial design makes it comfortable and convenient to use just about anywhere you have to be.

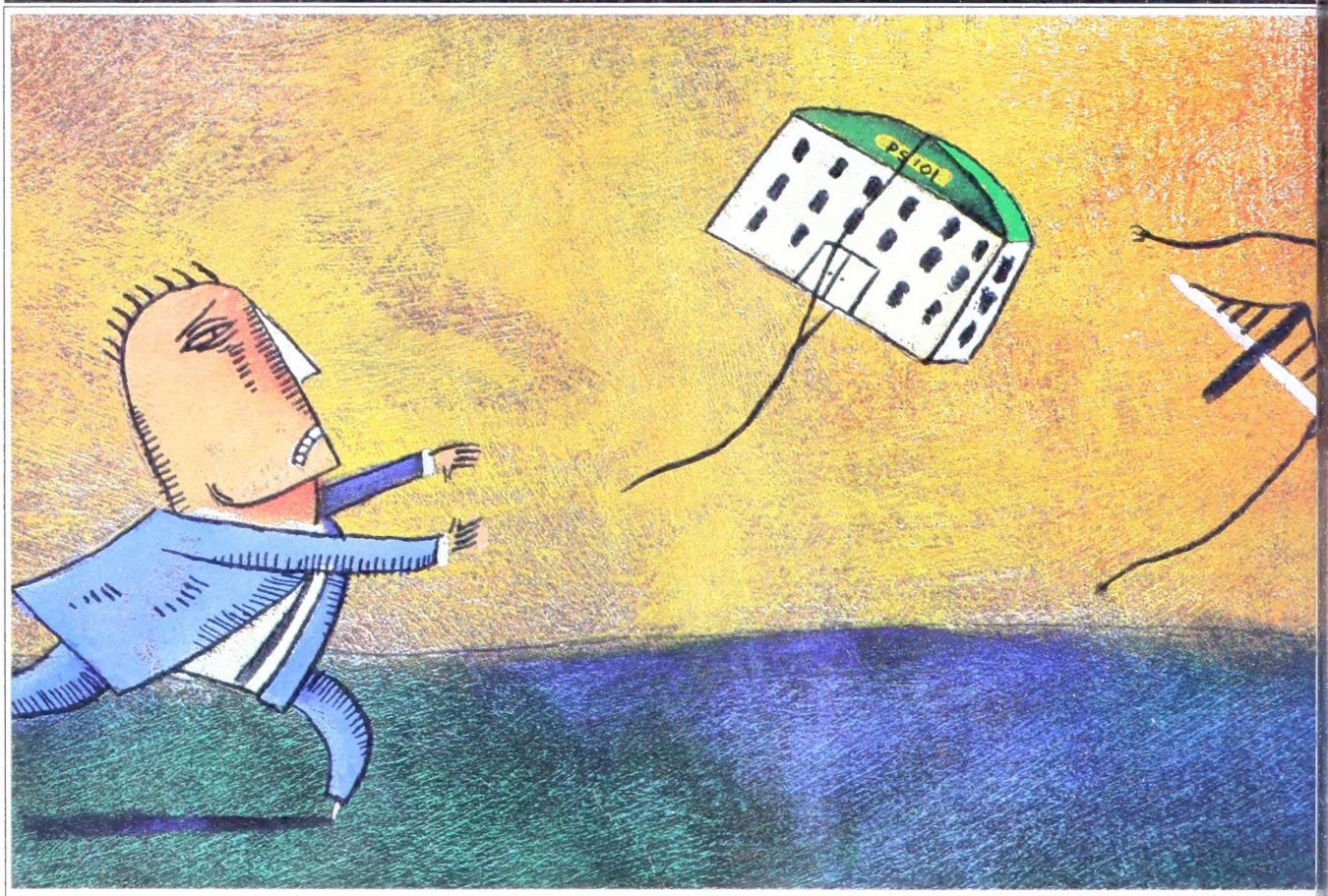
And unlike the complicated layers of software you typically find in DOS notebook computers equipped with Windows, PowerBook seamlessly integrates hardware and software.

But most important, PowerBook makes it easier for people to be productive wherever their business takes them. With AppleTalk® Remote Access and an optional internal fax/modem, users can tie into the office network to access e-mail and servers. Or send and receive faxes.

It's the kind of power that can make people more productive, even when they end up in the occasional middle seat.

The power to be your best.® Apple

BusinessWeek
NUMBER 3335 SEPTEMBER 6, 19



THE $1.2 TRILLION MUNI MARKET HAS NEVER SEEMED MORE INVITING. BUT AS ABUSES MOUNT, IT MAY NO LONGER LOOK SO SAFE AND SOUND

Cover Story

44 THE TROUBLE WITH MUNIS
Although the overall market is sound, abuses are hurting investors and taxpayers. Hidden deals and conflicts of interest often enrich underwriters and lawyers. Investors are sometimes underinformed and overcharged. And regulation ranges from cursory to nonexistent. Because so many powerful groups benefit from the market's structure, a conspiracy of silence reigns

46 FEELING LIKE "YOU'VE BEEN HAD"
A Michigan school district goes for a fancy deal and learns a hard lesson

50 MANY ROLES, NO RULES
He was a muni adviser, underwriter employee, and political fund-raiser

54 SCRAP PAPER
How investor William Ayres's $250,000 in bonds bit the dust

55 MUNIS 101: SELF-DEFENSE
Survival tips for Wall Street's equivalent of a huge used-car lot

Top of the News

20 THE FDA'S BITTER PILL
It sends drugmakers a message: Follow the rules or pay

22 EXPORTS WON'T HELP
Tight-money policies and recession overseas will choke U.S. growth

23 COMMENTARY
The danger now is that inflation may not be high enough

24 THE LITTLE BROKE SCHOOLHOUSE
Education's search for funds is breaking fresh ground

25 COMMENTARY
Speeding down the digital highway

26 GIVING JAPAN STICKER SHOCK
Detroit scores with aggressive prices

28 POW! BAM! SOCK!
Video game wars heat up

28 MOVIE SMASH, GAME CRASH
Why hit flicks flop as video games

30 THE FALL OF NIAGARA FALLS
Hotels and shop owners are hurting

32 IN BUSINESS THIS WEEK

International Business

38 CHINA
The struggle between economic reformers in Beijing and hard-line conservatives in the provinces

39 CHINA
Getting tough with China over weapons sales to Pakistan could be tough on the U.S.

41 JAPAN
Cut-rate chains are shaking up the staid world of Japanese retailing

Economic Analysis

14 ECONOMIC VIEWPOINT
Becker: Gambling's advocates are right—but for the wrong reasons

16 ECONOMIC TRENDS
Hot housing starts, stay-at-home investors, mutual funds' aftertax returns, mineral-export deflation

17 BUSINESS OUTLOOK
A voracious appetite for imports took a bite out of growth in the U.S. in the first half

COVER ILLUSTRATION BY PETER KUPER. ILLUSTRATION ABOVE BY JAMES YANG

6 **MIGHTY MINI:**
LIKE MANY OF ITS MID-CAP KIN, MOLEX IS A VIRTUAL UNKNOWN—BUT A $776 MILLION UNKNOWN, DUE TO CEO KREHBIEL'S WISE MOVES ABROAD

20 **STRONG MEDICINE:**
THE FDA BEGINS A DRUG-INDUSTRY CRACKDOWN, HANDING OUT STERN WARNINGS AND EVEN ORDERING SOME PRODUCTION HALTED

58 **ALL THE NEWS THAT ENRICHES:**
MICHAEL BLOOMBERG IS EXPANDING HIS NEWS SERVICE AND PUSHING INTO NEW MEDIA. BUT IS HE SPREADING HIMSELF TOO THIN?

Government

5 **WASHINGTON OUTLOOK**
Can Clinton sway health reform's most crucial critic?

BILL PERRY GOES TO WAR
Defense's No. 2 man is mobilizing to change Pentagon purchasing

Media

BLOOMBERG'S STRATEGY
He's building his empire to sell more financial-data terminals

Legal Affairs

2 **GUILTY OF OVERCHARGING**
Companies crack down on the high cost of outside counsel

The Corporation

6 **LITTLE GIANTS**
Why "mini-nationals" are the model for the corporation of the '90s

Finance

2 **A CALL TO ARMS ON ARMs**
Homeowners are suing lenders for overcharges—and winning

3 **IF YOUR ARM FEELS FUNNY . . .**
How to check your mortgage rate

4 **INSIDE WALL STREET**
Is Interpublic going private?
Saratoga Springs is gushing
This warranty is still good

5 **INVESTMENT FIGURES OF THE WEEK**

The Arts Business

76 **GRAND OLE SYMPHONY?**
America's staid orchestras are being forced to change with the times

76 **BREAKING A SOUND BARRIER**
CDs of second-tier orchestras

Information Processing

78 **AT&T'S MULTIMEDIA FUTURE**
It sees itself as a digital superpower, storing data and linking technologies

80 **CYBERBATTLEFIELD**
PC makers are starting to target the consumer market

82 **PHILIPS' WIZARD:**
FRANK CARRUBBA, WITH A RESEARCH BACKGROUND AND VAST AUTHORITY, IS MAKING HEADWAY AGAINST THE DUTCH COMPANY'S WOES

Science & Technology

81 **DEVELOPMENTS TO WATCH**
Gauging octane, "smart" shipping for produce, the FDA, recycling toner trash, campus safety

82 **RESEARCHING RESEARCH**
Philips' R&D effort is getting a major overhaul aimed at bringing more new products to market faster

Industries

84 **YANKEE DIESEL DANDIES**
Clean and green U.S. truck engines are starting to sell well overseas

85 **FREIGHTLINER'S BIG U-TURN**
The truckmaker roars to the top

Personal Business

90 **INVESTING:** New mutual-fund ads
TAXES: Housing shelters
SMART MONEY: Bank stocks

Features

4 **BUSINESS WEEK INDEX**

5 **READERS REPORT**

10 **BOOKS**
Heidenry: *Theirs Was the Kingdom: Lila and DeWitt Wallace and the Story of the* Reader's Digest

93 **INDEX TO COMPANIES**

96 **EDITORIALS**
It's time to lower the prime rate
Don't discourage investment abroad
The muni market needs a clean sweep

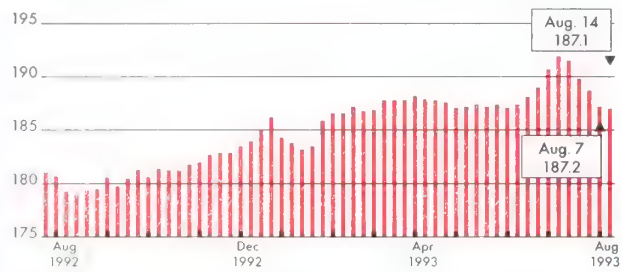
ss Week (ISSN 0007-7135) published weekly, except for one issue in January, by McGraw-Hill Inc. Executive, Editorial, Circulation, and Advertising Offices 1221 Avenue of the Americas, New York, N. Y. 10020. ubscriber rate: $46.95/year; Canada: CDN $69/year. Second-class postage paid at New York, N. Y., and at additional mailing offices. Postage paid at Montreal, P. Q. Canada Post International Publications roduct Sales Agreement No. 246484. **Postmaster:** Send address changes to BUSINESS WEEK, P. O. Box 430, Hightstown, N. J. 08520.

BusinessWeek Index

PRODUCTION

Change from last week: −0.1%
Change from last year: 4.5%

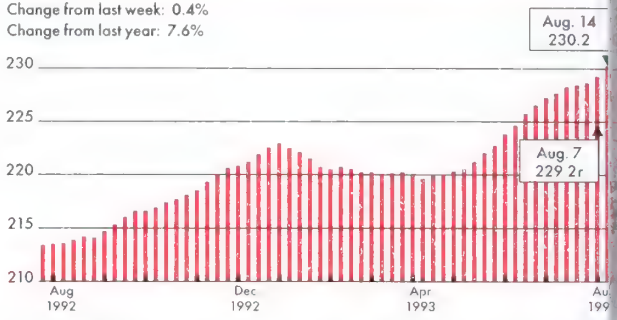
1967=100 (four-week moving average)



The production index was virtually unchanged for the week ended Aug. 14. On a seasonally adjusted basis, output levels of autos, trucks, electric power, crude-oil refining, coal, and paper all declined. Production of steel, paperboard, and lumber and rail-freight traffic increased. Before calculation of the four-week moving average, the index fell to 186.8, from a revised 187.1 in the previous week, and 189 in the week of July 31

LEADING

Change from last week: 0.4%
Change from last year: 7.6%



The leading index continued to increase during the week ended Aug. 14, led b the bond rally's downward push on long-term yields. In addition, higher stock price fewer business failures, and better growth rates for materials prices and real esta loans contributed to the advance. The growth of the M2 money supply slowed sligh ly. Before calculation of the moving average, the index rose to 233.4, from 231. in the previous week

PRODUCTION INDICATORS

	Latest week	Week ago	% Change year ago
STEEL (8/21) thous. of net tons	1,867	1,854#	13.2
AUTOS (8/21) units	103,503	103,858r#	−8.5
TRUCKS (8/21) units	94,489	85,488r#	13.6
ELECTRIC POWER (8/21) millions of kilowatt-hours	69,600	66,074#	13.7
CRUDE-OIL REFINING (8/21) thous. of bbl./day	13,999	14,056#	1.0
COAL (8/14) thous. of net tons	17,618#	17,503	−9.8
PAPERBOARD (8/14) thous. of tons	804.9#	789.1r	−0.6
PAPER (8/14) thous. of tons	786.0#	791.0r	1.9
LUMBER (8/14) millions of ft	441.3#	441.8	−5.6
RAIL FREIGHT (8/14) billions of ton-miles	20.4#	20.0	−3.8

Sources: American Iron & Steel Institute, *Ward's Automotive Reports*, Edison Electric Institute, American Petroleum Institute, Energy Dept., American Paper Institute, WWPA[1], SFPA[2], Association of American Railroads

FOREIGN EXCHANGE

	Latest week	Week ago	Year ago
JAPANESE YEN (8/25)	105	102	124
GERMAN MARK (8/25)	1.69	1.68	1.41
BRITISH POUND (8/25)	1.48	1.51	1.99
FRENCH FRANC (8/25)	5.88	5.90	4.80
CANADIAN DOLLAR (8/25)	1.31	1.32	1.20
SWISS FRANC (8/25)	1.48	1.49	1.26
MEXICAN PESO (8/25)[3]	3.120	3.120	3.100

Sources: Major New York banks Currencies expressed in units per U.S. dollar, except for British pound expressed in dollars

PRICES

	Latest week	Week ago	% Change year ago
GOLD (8/25) $/troy oz.	371.150	373.700	9.6
STEEL SCRAP (8/24) #1 heavy, $/ton	112.50	112.50	30.1
FOODSTUFFS (8/24) index, 1967=100	210.9	212.0	5.0
COPPER (8/21) ¢/lb.	90.4	90.0	−23.8
ALUMINUM (8/21) ¢/lb.	54.8	56.3	−8.1
WHEAT (8/21) #2 hard, $/bu.	3.35	3.29	2.8
COTTON (8/21) strict low middling 1-1/16 in., ¢/lb.	52.34	52.63	−7.7

Sources: London Wednesday final setting, Chicago market, Commodity Research Bureau, *Metals Week*, Kansas City market, Memphis market

LEADING INDICATORS

	Latest week	Week ago	% Chan year
STOCK PRICES (8/20) S&P 500	452.02	449.95	
CORPORATE BOND YIELD, Aaa (8/20)	6.79%	6.92%	−1
INDUSTRIAL MATERIALS PRICES (8/20)	95.3	95.7	−
BUSINESS FAILURES (8/13)	288	361r	−3
REAL ESTATE LOANS (8/11) billions	$404.9	$403.1r	
MONEY SUPPLY, M2 (8/9) billions	$3,481.0	$3,486.1r	
INITIAL CLAIMS, UNEMPLOYMENT (8/7) thous.	331	335	−3

Sources: Standard & Poor's, Moody's, *Journal of Commerce* (index: 1980=100), Dun & Br street (failures of large companies), Federal Reserve Board, Labor Dept. CIBCR seasonally adj data on business failures and real estate loans

MONTHLY ECONOMIC INDICATORS

	Latest month	Month ago	% Chan year
ORDERS FOR DURABLE GOODS: MFG. (July) billions	$127.5	$132.5r	
BUDGET SURPLUS OR DEFICIT (-) (July) millions	−$39,577	$11,099r	−8
IMPORTS (June) millions	$49,710	$47,306r	1
EXPORTS (June) millions	$37,648	$38,930r	

Sources: Commerce Dept., Treasury Dept

MONETARY INDICATORS

	Latest week	Week ago	% Chan year
MONEY SUPPLY, M1 (8/9)	$1,091.1	$1,091.2r	1
BANKS' BUSINESS LOANS (8/11)	271.3	273.8r	−
FREE RESERVES (8/18)	281	877r	−5
NONFINANCIAL COMMERCIAL PAPER (8/11)	158.0	159.1	1

Sources: Federal Reserve Board (in billions, except for free reserves, which are expressed fo two-week period in millions)

MONEY MARKET RATES

	Latest week	Week ago	Y
FEDERAL FUNDS (8/24)	2.95%	3.10%	3.2
PRIME (8/25)	6.00	6.00	6.0
COMMERCIAL PAPER 3-MONTH (8/24)	3.14	3.18	3.3
CERTIFICATES OF DEPOSIT 3-MONTH (8/25)	3.13	3.13	3.3
EURODOLLAR 3-MONTH (8/20)	3.13	3.13	3.3

Sources: Federal Reserve Board, First Boston

#Raw data in the production indicators are seasonally adjusted in computing the BW index (chart); other components (estimated and not listed) include machinery and defense equipme
1=Western Wood Products Assn. 2=Southern Forest Products Assn. 3=Free market value NA=Not available r=revised NM=Not meaningful

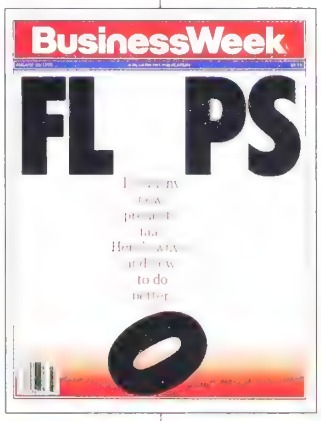
Readers Report

WHY SO MANY FLOPS?

Your story on "Flops" (Cover Story, Aug. 16) was helpful in explaining why certain products fail despite millions spent in research and development.

What's more surprising is that, in some cases, the research couldn't possibly have supported the product. The best example you gave was the RCA videodisc player that didn't record. For almost two years prior to its release, video- and audio-industry research separate from RCA's showed no interest from consumers for that very reason.

Stephen Meyer
Studio City, Calif.



It is not only consumer-goods companies that introduce products that fail. Business-to-business marketers do it all the time. In industries from investment products to machine tools, companies end up with lemons because they don't do their homework. In the 1990s and beyond, only companies that do enough research—and listen to the results—will survive.

Deborah C. Sawyer
Buffalo, N.Y.

Your article paints a picture that your figures don't support. Based on the text, I would assume that new-product development was stagnant or worse. Your figures point out that 12 out of 13 new products don't make it out the door, yet only 46% of the new-product development budget goes to failures. That looks to me as if businesses are cutting their losses early and identifying successes.

Long-term success is another difficult item to measure. Counting how many products are still on the shelves five years after development gives a warped picture. Very little office equipment sold five years ago is still available, for instance. And consumer fashions and fad products will not last at all—but they can still generate a tidy sum for those businesses.

I see the story differently: Businesses are less inclined to expand into new markets or manage very diverse conglomerates. They also are more focused on shorter-term returns. So they're taking fewer risks and staying closer to their core businesses, with products they know how to roll out faster. That's an important story. But it's not saying that new-product development is in trouble, nor that eliminating failures is a formula of 14 items culled from 10 successes and 10 failures.

David J. Alsberg
Astoria, N.Y.

I can't agree with the six-step program in "Here's why—and how to do better." I think your way leads right into marketing disasters. The most dangerous point is "asking the customer." That creates only me-too products because the customer is not creative. No real marketing breakthrough has been built on marketing research.

The key is being first. All successful marketers have their firsts: Apple (PC), Amiga (multimedia), Hewlett-Packard (laser printer), BMW (ultimate driving machine), Voyager (minivan).

Michael Brandtner
Rohrbach, Austria

You touched on the concept of speeding products to market. Considering that new products account for nearly 30% of profits for many companies, a company that doesn't speed new offerings to market faces decline a short way down the road.

I would suggest that companies traditionally put too much at stake by focusing on the development of only a few new products. Companies would be better off speeding a large number of products—or variations of one product—to the shelves in the shortest amount of time. The focus should not be on reducing new-product failures. It should be

BUSINESS WEEK
SEPTEMBER 6, 1993 * * * 3335
ISSN 0007-7135

[illegible] weekly, except [illegible] January, by McGraw-Hill Inc. Founder: James H. McGraw [illegible]

Executive, Editorial, Circulation, and Advertising Offices: McGraw-Hill Building, 1221 Avenue of the Americas, New York, N.Y. 10020. Telephone 212-512-2000. Telex: Domestic 127960, Int'l [illegible]. U.S. subscription rate $46.95 per year; 2 years, $78.95; 3 years, $104.95. Single copies $2.75 [illegible] Write for rates in other countries. [illegible] Services 1-800-[illegible]-1200. TDD 1-800-554-1579

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PRINTED IN THE U.S.A.

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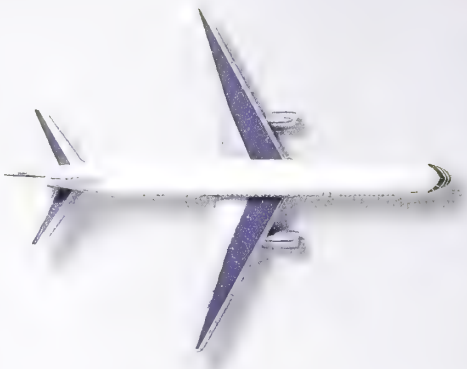

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Readers Repor

on increasing new-product success

The company must be willing to products fail. These failures secure sh space and confuse the competition wh maximizing consumer choices. The co pany must also be willing to sacrif its current product line before compe tion kills it.

Until a company is ready to alter mindset, it will be burdened with cos development and testing processes an large number of flops.

Victor Sar
Sterling Heights, Mi

BARNEY IS A 'RARE JEWEL,' NOT A CRASHING BORE

In "Wouldn't you like to knock stuffing out of Barney?" (Top of News, Aug. 16), you were way off mark in your depiction of Barney his image among American parents. T program's so-called tedious lack of "ad minded entertainment" value is, at be a misguided criticism for a progr specifically intended for children.

Granted, your intent was proba not to misinform the reader but rat to bring lighthearted humor to your erwise serious publication. However today's treacherous television world, p ents such as myself can't afford to such off-base and unwarranted atta on rare jewels such as the Barney sh go unchallenged.

Kent P. Sheph
Lafayette, C

EARLY RETIREMENT: A GOOD WAY TO LOSE THE BEST WORKERS?

Corporate management has obvic ly forgotten the lesson we learne the days before milk was homogeniz If you pour from the top, the cre comes out first.

IBM and the other companies m tioned in "Take the money and run- take your chances" (Top of the Ne Aug. 16) should realize that enhan "retirement" packages are most att tive to the best employees. These the people who can most easily find r employment.

As the cream of the work fo leaves, the company is then left w skim milk. Its employee pool will longer be fat, but neither will it h the quality of the people who wal out the door.

Richard D. Ha
Vashon, Wa

Letters to the Editor should be sent to Readers Re Business Week, 1221 Avenue of the Americas, York, N. Y. 10020. Fax (212) 512-4721. All l must include an address and daytime and evening phone numbers. We reserve the right to edit letter clarity and space.

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THE *DIGEST'S* MOST UNFORGETTABLE CHARACTERS

In 1941, just after the *Reader's Digest* had become the world's most widely circulated magazine, its founder and editor, DeWitt Wallace, invited the famous *New Yorker* contributor Alexander Woollcott to write a series of articles. Woollcott's reaction was typically waspish. "Mr. Wallace has destroyed the pleasure of reading" he told a friend. "Now, he is about to destroy the pleasure of writing." For all its worldwide popularity, the *Reader's Digest* has never won much respect from journalists, writers, and intellectuals, who have tended to view it as pabulum for the masses.

An obvious response is, so what? As John Heidenry documents in *Theirs Was The Kingdom*, his fact-crammed story of the magazine and its founders, the *Digest* piled up money just by being, as critic Walter Goodman quipped, "a magazine nobody reads, apart from its 30 million subscribers." In time, it reached a circulation of more than 17 million in the U. S. alone and was published in 32 editions in 13 languages. Woollcott ended up contributing to the magazine, as did many other well-known writers. Wallace outpaid all other publishers.

Heidenry's book is eminently worth reading, though it dwells too long on comings and goings at the *Digest* up to half a century ago. A bit of the *Digest*'s boil-it-down editing would have helped delineate Heidenry's most intriguing story: that of a couple who didn't quite know what to do with the money-making machine they built, and the businessmen who did.

DeWitt Wallace, or Wally, as everyone called him, launched the *Digest* in 1922, when he was 23, to give people with little time or inclination for reading an easy way to sample what he judged to be the best articles from America's magazines. This meant not simply reprinting articles but pruning them rigorously—sometimes by as much as 75%.

Wally's approach to story selection was straightforward. "I simply hunt for things that interest me," he once said, "and if they do, I print them." What interested Wally were articles that informed the reader—unusual facts, self-help tips, medical treatments—or that offered a lift or a chuckle. An upbeat tone was paramount. Adversity was mentioned only to show it could be overcome, in the type of article a wag once parodied as "New Hope for the Dead."

To reinforce the magazine's appeal to women, Wally listed his wife, Lila, on the *Digest*'s first masthead. Thus she is usually identified as co-founder, but she actually never had much to do with the magazine, Heidenry reports.

Heidenry portrays Wally as a man of contradictions, some of which would have stunned readers of his magazine, which opposed smoking, refused liquor advertising for years, and espoused traditional values. Wally enjoyed cigarettes, martinis, poker, and off-color stories. And in nearly 60 years of marriage, he carried on numerous affairs, including a disastrous one with Lila's niece.

One area in which he was consistent, though, was politics. His views, strongly reflected in the magazine, ranged from conservative to reactionary. Liberal critics often accused the *Digest* of being a mouthpiece for the CIA and the FBI, and Heidenry makes clear that it cooperated closely with both agencies, which were often the key or only sources for articles on topics such as communist influence in Latin America.

The *Digest*'s steady growth eventually forced Wally to take on hired hands, including highly paid men not content to preside over one magazine, even if it was a colossus. Two questions nagged these executives: How could they keep the Reader's Digest Assn. (the corporate name of the magazine and its offspring) growing and profitable? And what would happen to RDA when the childless Wallaces, who were childless, died?

Wally didn't want to be a media mogul like his celebrated contemporary Henry Luce. And even though his empire was eventually worth upwards of $2 billion, money meant less to him than spreading the *Digest* and its message around the globe. He consistently warned his executives to avoid "excessive profits."

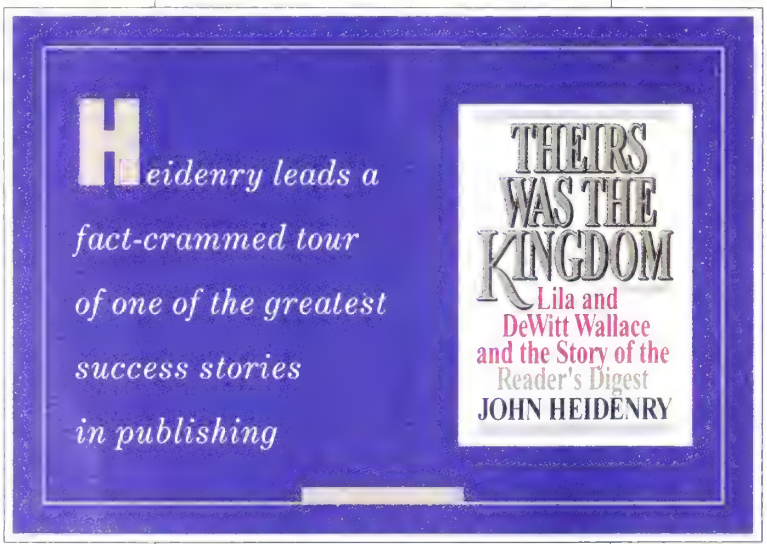
Naturally, they tended to disregard such whimsical advice, and RDA steadily expanded into new businesses. Those that exploited RDA's direct-mail expertise, such as the Condensed Book Club, generally succeeded. Those that ranged farther afield, such as production of movies, flopped.

As the Wallaces aged, with no clear successor in sight, infighting and intrigue at RDA were, the *Economist* reported, "worthy of the court of the Medici." Meanwhile, Wally and Lila spent their time giving their money away to schools, hospitals, and art museums. In a final burst of generosity (aimed to keep RDA in private hands), they left all nonvoting stock to eight charities and all voting stock to three Wallace trust funds. Wally died in 1981, at age 92. Lila died three years later, at 95.

Effective control of RDA passed to the trustees of the Wallace trusts, who agreed that RDA must keep growing. Even after a 1990 public stock offering, the trustees controlled the majority of the voting shares, ensuring, as Heidenry puts it, "that the RDA, though public, also stayed forever private." Nonetheless, Heidenry notes somewhat mournfully that the RDA is marching "into the anonymity of a high-profile communications giant." Wally would have hated that. But the charities that own the company don't mind excessive profits at all.

BY JACK PATTERSON

Patterson complains that BUSINESS WEEK is running a condensed version of his review.



These days, buying a new phone system is like leaping into murky waters. You never know what's lurking below until you take the plunge. Will you be swamped with calls? Or will things dry up over time? And what about evolving technology? Will you need features like private networks, automated call distribution or voice messaging? We suggest you take a deep breath and relax. Because with the Series 3,™ you can adapt to new environments when the need arises. Whether you're upgrading your system, relocating your business or simply growing by leaps and bounds. Call us at 1-800-553-3263 to take it for a test dive.

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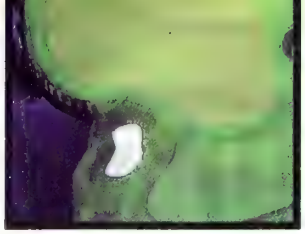
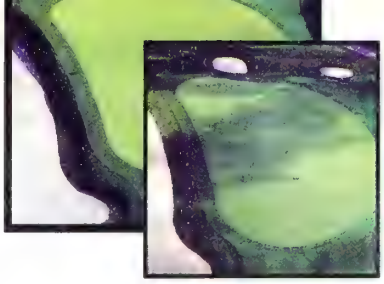




I've built about 65 golf courses since I started back in 1960. As I build a course, I really don't have a whole vision of what's going to happen when I start. I walk the land to get a feel for it, because I make all my designs in the dirt. I don't know how to punch a computer and I'm too old to learn.

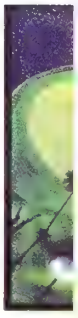
Golf is a mental game, and golfers are always nervous. So I constantly try to work on their idea of how a hole ought to be played. Nowadays the only ally I have is water; that's the only hazard they can't recover from. Sand is easy, and if you go in the water you know what kind of lie you have down there. People say there's a lot of water on the Tournament Players Club,® and that's true, but then there are a lot of good golfers out there too.

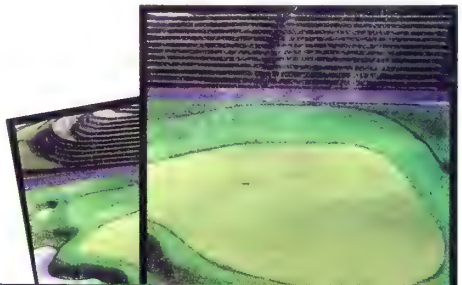
The American Express® Card is welcomed at all these TPC® golf clubs, and it does just as much for the bad golfer as it does for the good golfer.

American Express reminds you the Card is welcomed at all kinds of golf courses. (And Pete would like to remind you to keep your head down.)

Pete Dye
Golf Course Designer & Builder

Golfers just love punishment. (And that's where I come in.)



GAMBLING'S ADVOCATES ARE RIGHT —BUT FOR THE WRONG REASONS

BY GARY S. BECKER

State-run gaming will be no jackpot for local governments. But why deny citizens the pleasure of modest betting, when the arguments against it are so specious? And why drive them into criminal-run casinos?

GARY S. BECKER, THE 1992 NOBEL LAUREATE, TEACHES AT THE UNIVERSITY OF CHICAGO AND IS A FELLOW OF THE HOOVER INSTITUTION

Many state and local governments face even greater fiscal pressure to raise taxes than Washington does. In the scramble for additional revenue, Mississippi and Indiana, along with Boston, Chicago, New Orleans, and the District of Columbia, among other localities, already allow or are seriously considering the enfranchisement of casino gambling and other gaming devices such as lotteries. I support this trend toward legalizing gambling, although my reasoning has little to do with revenues.

Mayors and governors drool in anticipation of what gambling taxes can do for their budgets. Nevada, for example, collects more than $200 million a year from its casinos, the state's largest employer, and New Jersey better than $314 million. Several Indian reservations—notably in Connecticut and South Dakota—have become rich from slot machines, poker and blackjack tables, and other gaming devices. The U. S. Supreme Court ruled in 1987 that reservations could operate gambling facilities comparable to any others permitted in their states.

As casinos spread across the country, however, the number of communities competing for the limited tax revenues from gambling will increase. They won't be able to duplicate the financial success of Nevada, Atlantic City, or the Indian reservations.

State and local governments must forget about gambling as a fail-safe jackpot. There is no way gambling is going to solve their fiscal crises. It would only add a modest amount of tax revenue. But there is this to be said for legalizing gambling: It would enable the many people who wish to place a bet to do so without patronizing illegal establishments and facilities controlled by criminals.

VENIAL SIN. For me, the issue comes down to this: The arguments against legalized gambling are specious, so why not allow it? The assertion by religious and civic groups that gambling is sinful and hence shouldn't be encouraged is of dubious validity. Gambling is surely less sinful than smoking and drinking, since smoking damages health, and drunkenness causes automobile and job accidents and domestic violence. And assuming so-called sin taxes should be proportionate to the degree of sin, the sin component of gaming taxes should be below the sin-tax rates on smoking and drinking. Federal and state governments together tax about 20% of cigarette and beer sales, while Nevada collects about 5% of net casino revenues in that state.

More than 30 states already encourage gambling by running enticing advertisements for state lotteries. The poor bet on these lotteries—as well as on illegal gaming such as numbers and card games. The rich can specu as recklessly as they wish through buying selling equities, options, real estate, and o highly risky assets. It is principally the mi classes that are affected by present restrict on casinos and other forms of gambling. few families in this group bet much of thei come and assets in the attempt to hit it

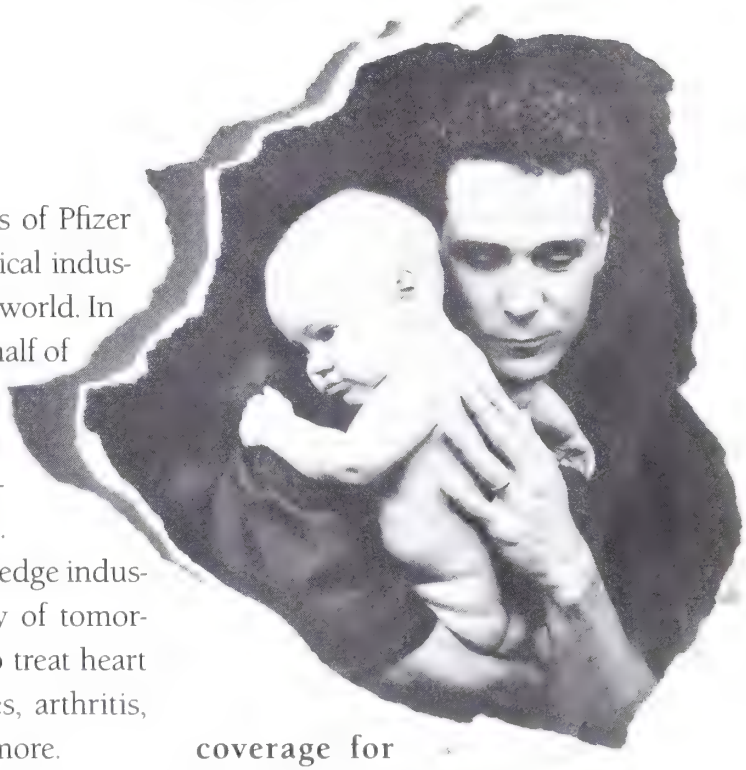
Some opponents paint a picture of g bling addicts frittering away their life ings in pursuit of the big killing of their tasies. Analysis of the betting pattern lottery and casino patrons, however, sh that addictive gambling is not common—s ly much less so than addiction to tobacco alcohol. Few people buy so many lottery ets that they jeopardize their funds for and other necessities. Most casino visitors middle-aged folks having a good time friends. Why deny them the pleasures—th even—they get from modest betting on teries and other gaming devices?

GONE LEGIT. Many of those opposed to le ized gambling don't care a fig whether patrons would commit a sin or risk addict Their concern is with organized crime, w did, after all, create Las Vegas. But that long ago, and nowadays reputable compa such as Hilton, Hyatt, Bally's, and Grand nos control most of the gambling facilities hotel rooms in Las Vegas and Atlantic and run the newly legalized casinos along Mississippi River.

Organized crime thrives on illegal ac ties such as drugs and betting on numb Criminals have an advantage over ho businesspeople in bribing law-enforcemen ficials—and in using force to collect their d The influence of criminals on gaming woul reduced, not raised, if companies were ab operate casinos and other facilities on ri boats or anyplace else that is zoned for g ing. Many legitimate companies are eag enter this industry as soon as it becomes gal activity.

The fear of organized crime has encour state and local governments to operate s lotteries, the Off-Track Betting shops in York City, and other facilities. But gov ments have been no more successful at t activities than they are at providing o services: New York's OTB offices are an the few unprofitable gaming establishm in the world. State lotteries have been slo innovate, and they rip off their mainly educated clientele by paying out only 50 their revenue. By contrast, privately run nos in Las Vegas and elsewhere are fo by competition to pay out about 95% o amount wagered.

In the 20th century, more cures have been developed in America than anywhere else. We're working to do the same for the 21st.



The breakthrough cures of Pfizer and the American pharmaceutical industry are admired throughout the world. In the last 20 years alone, nearly half of all the world's major medicines were discovered or developed by the U.S. research-based pharmaceutical industry.

As a leader in a leading-edge industry, Pfizer is developing many of tomorrow's medicines—medicines to treat heart disease, cancer, AIDS, diabetes, arthritis, Alzheimer's, depression, and more.

Our cures are made possible by research and development. This year, we're investing $1 billion in R&D.

We also understand that even the most advanced health care in the world must be accessible to everyone. **That's why, at Pfizer, we voluntarily pledge to hold down the price of our prescription medicines. We pledge to work toward a plan that provides all Americans with coverage for prescription medicines. And we pledge to expand our programs that offer doctor-prescribed Pfizer medicines at no charge to those Americans who lack both the money and insurance for prescription medicines.** With commitment like this, America can realize the full benefits of pharmaceutical technology for this generation—and the generations to come.

Pfizer

We're part of the cure.

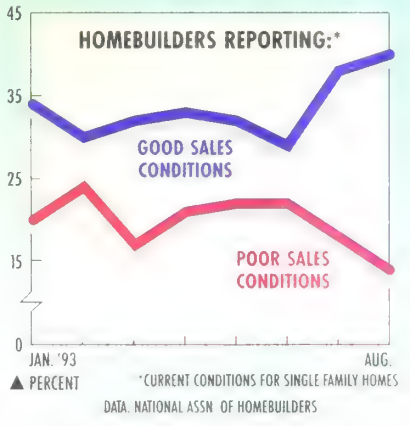
BY GENE KORETZ

RECORD LOW MORTGAGE RATES MAY BE FINALLY HITTING HOME

For housing-market observers, waiting for homebuilding to speed up this year has required the patience of Job. Despite the lowest mortgage rates in a generation, housing starts fell in July for the second straight month.

Now, however, the clouds appear to be lifting. The National Association of Home Builders (NAHB) reports that 40% of builders surveyed in August felt sales conditions were good (chart), the largest number since early 1989. With traffic of prospective buyers through model homes on the upswing, "housing should be one of the stronger components of GDP through the rest of the year," says economist Dean Crist of the NAHB.

ARE HOUSING STARTS POISED FOR A BREAKOUT?



The catalyst, of course, is collapsing interest rates, which for fixed-rate mortgages are down to 7.1%—a 20-year low that is making home ownership an achievable dream again for many households. In recent months, sales of both existing and new homes have been quickening, and mortgage applications for home purchases in recent weeks have been running 22% over late May.

While all this bodes well for housing over the near term, the NAHB's Crist cautions that building "can't really take off until job and income growth strengthen." Still, there are omens that the housing market could add significantly more punch to the economy.

For one thing, the construction upswing so far has stressed starter homes over the more expensive trade-up houses that are built once an expansion gets going. Now, however, it appears that more affluent households are starting to get into the act.

Economist Lawrence A. Kudlow of Bear, Stearns & Co. points to the effects of higher income-tax rates combined with the continuing deductibility of mortgage interest and the now significantly lower capital-gains tax rate. "High-income investors," he says "are likely to channel more funds into capital-gains-producing assets like housing." If that happens, the construction mix would shift toward costlier homes, so that any given level of housing starts would translate into a higher level of output.

A 'HOME BIAS' IS INHIBITING GLOBAL INVESTMENT

Although capital markets are now global in scope, that doesn't mean that money always flows across borders seeking the highest return. At a conference held Aug. 19-21 in Jackson Hole, Wyo., under the aegis of the Federal Reserve Bank of Kansas City, Morris Goldstein and Michael Mussa of the International Monetary Fund argued that a "home bias" skews investment policy along familiar paths—within national borders. In other words, far less capital is directed abroad by U.S. and foreign investors than would be predicted by optimal portfolio strategies based on such considerations as risk, rate of return, and diversification.

The two economists cite recent studies that suggest that home bias during the 1980s cost U.S. institutional investors and their clients about two percentage points in rate of return. That is, they earned 2% less a year on funds that portfolio theory says should have been directed overseas. In Germany, a similar home bias may have cost investors as much as nine percentage points.

Why the bias? Goldstein and Mussa say investors are simply unfamiliar with the risks in foreign markets and tend to exaggerate them. Indeed, discussions with portfolio managers indicate that the bias extends to regions within a country, as well as overseas: "We conclude that there is a strong tendency even today for investors to be most knowledgeable and comfortable with investments in their own backyards."

Such results imply that large untapped profit opportunities abroad are still available to investors despite the increasing integration of global capital markets. Those able to research such opportunities and take advantage of them could reap significant rewards.

With Seymour Zucker in Jackson Hole

TOP-RATED MUTUAL FUNDS: ALL THEY'RE CRACKED UP TO BE?

Americans may be missing out profit opportunities at home as w as overseas. In a new study, Stanf University economists Joel M. Dick and John B. Shoven note that desp billions of dollars flowing into mut funds, the performance rankings of s funds lack information on their lo term aftertax rates of return.

That's a glaring omission because, cept for tax-deferred vehicles such pension investments, both dividends ceived by the funds and capital ga resulting from their trading are taxa to shareholders. For high-income inv tors, that means not only that th earnings over the years are far sma than a fund's reported appreciation also that an apparently high-perform fund may turn out to be a poor p former on an aftertax basis.

The two economists found, for exa ple, that based on the median return a sample of 62 mutual funds, $1 inves in 1962 would have grown to $21.89 1992 on a pretax basis, compared w $22.13 for a $1 investment in Standard Poor's 500-stock index. On an after basis, however, the same $1 for a hi income investor would have grown just $9.87. Moreover, aftertax fund ra ings looked a lot different, with one u tual fund that was in the bottom 20% the sample on a pretax basis wind up ahead of 60% of the pack for upp income taxable investors.

In light of such findings, it may only a question of time before mut funds and published rankings start provide investors with more infor tion on the funds' aftertax performa

MINERALS EXPORTERS SEEM CAUGHT IN A DEFLATIONARY CYCLE

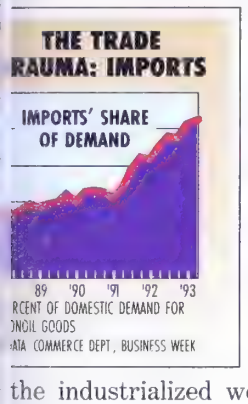
The prices of key industrial comm ities such as copper and oil seen be headed even lower, observes ec mist A. Gary Shilling. Both are p duced by financially weak countries v huge foreign debts—such as Zambia Peru and the OPEC nations. "As the p es of these commodities fall," notes S ling, "producers find they must turn even more to service their fore debts." The upshot is a vicious de tionary cycle, where falling prices sp greater output and even lower price

TEMBER 6, 1993

BY JAMES C. COOPER AND KATHLEEN MADIGAN

N IMPORT-HUNGRY AMERICA OOK A BITE OUT OF FIRST-HALF GROWTH

here is no question that the U. S. economy's performance in the first half of 1993 was disappointing. However, the reason for that lackluster showing is v clear—and it's not because of weak domestic dend. The major source of the first-half slowdown was a lden and huge widening of the nation's trade deficit. he shocking revelation that the U. S. merchandise de gap soared to $12.1 billion in June had economists atching their heads. That deficit was the widest in re than five years, and it was more than $3 billion ve the forecasters' general expectations.



Moreover, the June surprise extends the pattern of bigger gaps that began in March. In both March and April, the trade deficit jumped to more than $10 billion, up from less than $8 billion in both January and February. Most economists believed the spring numbers to be anomalies that were not indicative of the true trend. Wrong.

To be sure, recession in most the industrialized world—and its harmful impact on S. exports—is one factor in the trade balance's deterition. Export growth slowed to a standstill in the first f, but weak foreign demand is far from the main cult. Since the fourth quarter of 1992, a surge of importgoods has accounted for all of the widening in the de gap.

OMESTIC EMAND S GOING BROAD...

The resulting drag on economic growth was enormous. The Commerce Dept. will issue its annual revisions to gross domestic product on Aug. 31, so many numbers l change. But as of now, it looks as though a worsening de deficit, by itself, robbed the economy of about 1.5 centage points of growth during the first half. A rush mports hardly reflects weak domestic demand.

On the contrary. In the first half, domestic spending for ods other than petroleum products rose at an annual e of about 4%, based on the unrevised data. The prob: Imports of goods, excluding oil, skyrocketed at an anl rate of about 14%. As a result, the imports' share of nestic demand for goods reached a record 24.6% in second quarter (chart).

n a recovery, the pace of imports normally outstrips t for domestic demand, but the four-percentage-point rease in import share since early 1991 is startling. That's not only because of the huge rise, but because it has occurred without any deterioration in the competitive position of U. S. companies via currency movements.

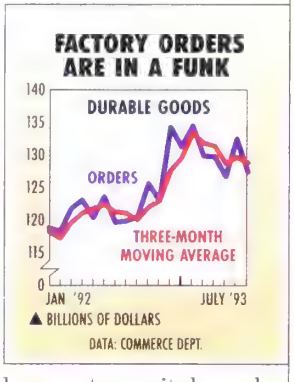
Coming out of the 1981-82 recession, the import share jumped five percentage points, but that could be explained by the supercharged foreign-exchange value of the dollar. This time, the U. S. appears to have nothing to blame but its ravenous appetite for foreign-made goods.

...AND U.S. INDUSTRY IS LEFT BEHIND

The surge in imports means that U. S. manufacturers are missing out on much of the pickup in domestic demand. Combine that with the slower pace of export growth, and it's easy to see why the yawning trade gap is a big part of the factory sector's current problems.

New orders for durable goods fell 3.8% in July, to $127.5 billion, the largest decline in 1½ years (chart). In addition, factory shipments slumped by 4.2% in the month, and unfilled orders shrank 0.4%, to $434.7 billion, the lowest level in almost five years.

The July drop probably overstates the weakness, though. Orders had jumped 4.5% in June, reflecting a 14.3% surge in transportation equipment. But the transportation sector posted an 18.1% plunge in July, as orders for aircraft and autos reversed course. Excluding transportation, orders rose 1.4% in June and 1.3% in July.



Even so, the split between domestic spending and factory orders shows how demand is bypassing U. S. manufacturers. June imports jumped 5.1% from May's level, to a record $49.7 billion. The increases were broad, led by rising demand for industrial materials and capital goods, excluding autos. Year-to-date, price-adjusted imports are up 12.5% from the same period last year, and industrial materials and nonauto capital goods account for nearly three-fourths of that increase.

In particular, imported high-tech capital equipment is grabbing an increasing share of U. S. demand during the current boom in business spending for such goods. As a result, the U. S. trade surplus in capital equipment has dwindled to only one-third of what it was two years ago. This trend is also a byproduct of the rapid growth in foreign investment in the U. S. in recent years.

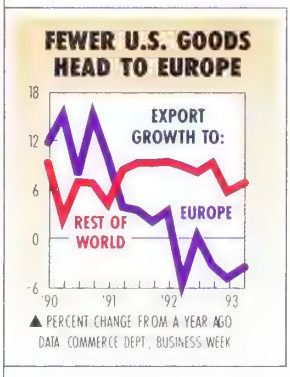
Four countries account for two-thirds of the year-to-date increase in imports, compared with the same period a

year ago. Listed in order of the size of their contribution, they are Canada, Japan, China, and Mexico. Not surprisingly, those four nations also account for nearly 60% of the widening in the U. S. trade deficit.

EXPORTS ARE RISING, BUT MORE SLOWLY

On the other side of the trade ledger, exports are clearly slowing down—but not nearly as fast as the June data suggest. Exports plunged 3.3% in the month, to $37.6 billion. However, the drop wasn't really that bad. About 40% of the decline came from a one-time falloff in nonmonetary gold shipments.

Still, export growth has slowed from the glory days of the late 1980s. After adjusting for price changes, real exports in the second quarter grew by 5.4% compared with a year ago. Not bad, but in 1988, exports were soaring at four times that pace.



The slowdown in exports is the result of slow growth in the U. S.'s major trading partners. Recessions in Europe have curtailed demand for American goods. In the second quarter, U. S. shipments across the Atlantic were off 3.6% from a year ago. Exports to the rest of the world have actually held up, rising by 7% last quarter (chart).

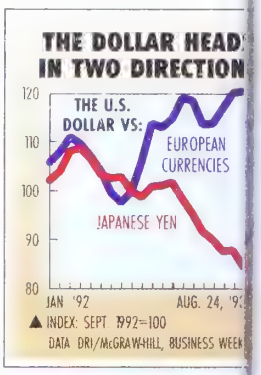
A turnaround in Europe is crucial to U. S. exports because Europeans buy about one-quarter of American exports. However, the failure of the central banks, led by the Bundesbank, to cut interest rates faster has delayed recoveries in most of Europe. Although Britain is growing, its upturn is still shallow.

Meanwhile, across the Pacific, import restrictions and an economic slump will continue to hold back U. S. export growth to Japan. Shipments to Japan doubled from 1987 to 1990, but since then, they have gone nowhere.

Moreover, the foreign-exchange value of the dollar is likely to help much, either. Although great attention h been paid to the dollar's record lows against the Japane yen, the American currency is strengthening vis-à-v the major European currencies. That's the result of o faster growth and low inflation, as well as the meltdo of Europe's exchange-rate mechanism.

Since the first ERM crisis in September, 1992, the dol has risen 20.8% against the currencies of Britain, Fran and Germany, on a trade-weighted basis. At the sa time, it has fallen 15.5% against the yen (chart).

The rising dollar means that U. S. goods sold in Europe will be at a price disadvantage when those countries start to recover next year. However, efforts by U. S. manufacturers to boost productivity and cut unit labor costs have placed U. S. factories in a highly competitive position.



The problems in Europe and Japan mean the hope for exporters in the second half lies with the rest of the world. And the news from developi countries, at least, is good. Shipments to them are o solid uptrend, in part because many of these countries a growing faster than the industrialized economies. Sh ments to the Pacific Rim have increased by 8% so far t year compared with the first half of 1992, and exports Latin America are up 4.7%.

The demand from developing nations means that ports will likely rise by an additional 5% in the seco half. But growth will not pick up sharply until 199 when Europe and Japan get back on their feet. Th means that hopes for correcting the trade deficit—a helping to lift U. S. factory output—for the rest of 19 may well be at the mercy of America's ever-growing petite for imports.

THE WEEK AHEAD

NEW SINGLE-FAMILY HOME SALES

Monday, Aug. 30, 10 a.m.
New homes probably sold at a 670,000 annual rate in July, down slightly from June's 678,000 clip, forecast economists surveyed by McGraw-Hill Inc.'s MMS International.

GROSS DOMESTIC PRODUCT (REVISION)

Tuesday, Aug. 31, 8:30 a.m.
The Commerce Dept.'s second look at second-quarter GDP will probably show that the economy grew at only a 1.2% annual rate, even slower than the previously reported 1.6% pace. Foreign trade is the culprit. In addition, Commerce will report its annual revision to the GDP data of the last three years. That may show that first-quarter growth was better than the current estimate of 0.7%.

CONSTRUCTION SPENDING

Wednesday, Sept. 1, 10 a.m.
Building spending likely rose by 0.3% in July, after a large 1.2% advance in June.

PERSONAL INCOME

Wednesday, Sept. 1, 10 a.m.
Both consumer income and spending rose by 0.3% in July. Income was unchanged in June, but outlays grew 0.6%.

NAPM SURVEY

Wednesday, Sept. 1, 10 a.m.
The National Association of Purchasing Management's August index of business activity rose to 50% from 49.5% in July.

FACTORY INVENTORIES

Thursday, Sept. 2, 10 a.m.
Factory inventories probably increa 0.2% in July, after falling 0.1% in Ju

LEADING INDICATORS

Friday, Sept. 3, 8:30 a.m.
The July index of leading indicators likely unchanged. It rose 0.1% in Ju

EMPLOYMENT

Friday, Sept. 3, 8:30 a.m.
The MMS economists expect that n farm payrolls rose by 150,000 in Aug on top of the 162,000 new jobs crea in July. Even so, the August unempl ment rate is projected to edge up 6.9% from 6.8% in July.

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LARS RAMQVIST, President and Chief Executive Officer, Ericsson.

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ERICSSON

STRONG MEDICINE

THE FDA STEPS UP A DRUG-INDUSTRY CRACKDOWN, EVEN ORDERING SOME PRODUCTION HALTED

ROLAIDS: SPECS WILL BE CHECKED BY AN OUTSIDE CONSULTANT

David A. Kessler is sending drugmakers a message: Follow the rules, or pay. They're listening.

In a Newark (N.J.) federal court on Aug. 16, the Food & Drug Administration forced Warner-Lambert Co. to temporarily halt production of its drugs and over-the-counter products that didn't meet FDA specifications. The tab for production shortcomings and withdrawn drugs: $150 million this year alone. With the extraordinary action, FDA chief Kessler put the industry on notice. "There's no doubt that there is an increase in compliance [activity]," says Lodewijk J. R. de Vink, president of Warner-Lambert. "It has been ratcheted up in a hurry."

The FDA denies that this is a sudden—or even recent—crackdown. "We said two to three years ago that enforcement was a priority—and I think we have stuck with it," says Kessler. But now, the tough FDA campaign suddenly has gone very public. The agency is scrutinizing drug factories and industry marketing claims as never before, delivering manufacturers hundreds of tough-sounding "warning letters" and dispensing with "voluntary agreements" in favor of court-supervised consent decrees. Taken together, the agency's actions are turning up the level of anxiety in an industry already reeling from stock market shocks, health-care-reform threats, and the nastiest competition in years.

The actions also show how m weight Kessler's FDA can swing. physician-lawyer made his mark in 1 by restraining orange-juice makers f misusing the word "fresh." A year la he pulled most breast implants off market for safety reasons. He has b working on the drug industry, too, s taking over the FDA's top job in Dec ber, 1990, trying to reverse the agen reputation for weak-kneed ineffect ness by beefing up enforcement and icizing industry promotional efforts.

The Warner-Lambert move, thou represents what some see as a quan leap in regulation. Critics call it over Under the court order, the company to cease production for over a week

DAVID KESSLER
FDA COMMISSIONER

THE WARNING'S IN THE MAIL...

Recent actions taken by the Food & Drug Administration against drugmakers

AHP American Home Products received a warning letter dated July 6 criticizing its handling of a situation in which two drugs were found to have shelf-life deficiencies. American Home is working with the FDA.

WARNER LAMBE Agreed on Aug. 16 to h production of certain dr until the FDA is convinc manufacturing is up to s Separately, the compan has discontinued severa drugs, worth $150 milli sales, because of manu turing problems.

ducts, including Listerine and Bena-
l, and make Rolaids antacid under
iew by independent consultants. It
o had to temporarily shut down parts
six factories that turn out prescrip-
ı medicines. The company has perma-
ıtly discontinued at least three minor
ıg lines after running into manufac-
ing problems that caught the FDA's
. In all, the cuts could trim sales
wth this year by half, to about 5%,
ting 1993 sales at about $5.9 billion.

RNING LETTERS. The FDA forced such
ion even while conceding that none of
faults it found in two years of exam-
ıg Warner-Lambert operations had
compromised safety or efficacy. The
A's complaint: The company's plants were out of sync with agency-defined "current good manufacturing practices"—production, quality control, and testing procedures.

Warner-Lambert's anti-anxiety drug Centrax, for example, didn't dissolve in tests as specified. Asthma medicine Tedral didn't meet sustained-release requirements, and the migraine drug Ergostat was subpar in potency tests. There was no health risk, but the manufacturing processes didn't meet standards that FDA Regional Director Richard J. Davis of Philadelphia says exist "to assure that drug products have the strength, purity, and quality that they are purported to have."

Industry experts say the agency has raised the bar since Kessler arrived. "It is not that industry practices have deteriorated, but the FDA has administratively adopted a more rigorous and demanding standard," says Peter Barton Hutt, a former FDA chief counsel who now advises drugmakers. "In companies that got no FDA objections two years ago, all of a sudden inspectors come in and complain about a number of problems."

Agency officials also are writing formal warning letters. Often addressed directly to chief executive officers, they admonish companies to make changes or face product seizures or court injunctions. Top execs at the likes of Merck, Sandoz Pharmaceuticals, and American Home Products, unaccustomed to such stiff regulatory attention, all have received at least one warning this year. The agency sent drugmakers 373 warnings in the year ended Sept. 30, 1992, up from 285 in fiscal 1991.

Drugmakers are acting fast to comply. Warner-Lambert's de Vink now personally oversees his company's regulatory-compliance task force. He and others are well aware of the punishment meted out to KV Pharmaceutical Co., a Brentwood (Mo.) maker of generic drugs. Federal agents seized $5 million of KV's products in April after FDA officials said the company had failed to make previously mandated manufacturing changes. The company signed a consent order in June, promising improvements while not admitting violations.

The FDA's toughened oversight has its roots in the agency's problems with generic drugmakers in the late 1980s. The agency was embarrassed when some of its examiners took bribes from several generic outfits. It was appalled when two generic drugmakers submitted doctored brand-name drugs in new-product applications to the agency—a practice it had inadequate guards against.

HAUNTED. Such scandals led the U. S. Attorney in Baltimore to win convictions in prosecutions against 10 companies. One, Halsey Drug Co., pleaded guilty in July, paying $2.5 million, to charges that it added unapproved ingredients to its products. The same U. S. Attorney's office is now investigating the FDA's problems with Warner-Lambert, which says it is cooperating fully with the probe.

The generic scandals begot other strictures now haunting brand-name drugmakers. In 1990, the FDA initiated preapproval reviews, evaluating production lines' compliance with manufacturing rules prior to a new drug's approval. Inspectors now urge delays in about one in three reviews. Such actions were provided additional legal basis in February when a federal judge, ruling in the case of generic drugmaker Barr Laboratories Inc., upheld many of the FDA's complaints about manufacturing practices.

To some in the business, the FDA's continuing crackdown unfairly penalizes drugmakers that already are the world's safest. Commissioner Kessler doesn't see it that way. "We have to make sure what's on the label is what's in the bottle," he explains. If companies don't scrupulously follow the FDA's guidelines for manufacturing, carefully testing sample batches and production processes to prove that each tablet contains what it's supposed to, Kessler says, "I can't give assurances that the drugs are safe." That sentiment is hard to argue with. The question is, are Kessler's methods the best cure?

By Joseph Weber in Philadelphia and John Carey in Washington

MERCK

was cited on June 18 for
to adequately prove that
nade using new equip-
nd a new source of raw
ıls met specifications.
says it has altered its
ures.

CIBA–GEIGY

On June 16, the FDA warned that the company wasn't properly investigating discrepancies in production and control records. It also faulted Ciba for failing to analyze flaws that may have been the result of impurities. Ciba has discontinued one drug and is modifying two others.

SANDOZ

Revised quality-control procedures for a migraine drug after the FDA warned on June 17 that its inspection of a New Jersey plant turned up production process flaws. Sandoz says it has fixed the problem.

Lilly

The FDA warned on July 21 that drug shelf-life tests weren't conducted properly for drugs made at a Puerto Rico plant. Lilly was also faulted for high microbial counts in water used to wash equipment there. Lilly says it has addressed the problems.

DATA FOOD & DRUG ADMINISTRATION COMPANY REPORTS

MEXICO: MANUFACTURING OUTPUT FELL 1.1% IN THE SECOND QUARTER, DUE TO SALINAS' ANTI-INFLATION POLICY

EUROPE: MORE LAYOFFS ARE SURE TO COME BEFORE COMPANIE CAN EXPECT A WEAK, U.S.-STYLE RECOVERY

WHAT HAPPENED TO THE TRADE NUMBERS?

Tight-money policies and recession abroad are choking exports

"Whoa, mama, stay up!"

Bill Clinton was exhorting a wayward golf shot during his vacation on Martha's Vineyard, but he might as well have been talking about the global economy. After three long years of malaise, much of the world economy is still losing altitude. Forecasts of European and Japanese growth have fallen sharply since spring, and European consumer confidence has plunged to record lows. Most disappointing of all, even Mexico and China—which were supposed to be the big success stories of the 1990s—are struggling with self-induced slowdowns.

All this turmoil abroad is having a dramatic and unwelcome impact on the U. S. economy. In the first half of 1993, the U. S. trade deficit soared to $112 billion, up from $72 billion a year earlier. That cut about 1.5 percentage points off growth, the biggest drag from trade since the import invasion of the early 1980s (chart). In effect, the U. S. is importing everyone else's recession.

With the world economy still missing any real engine of growth, the next year or so doesn't look much better. "We're facing a bleak 6 to 12 months of export demand," says David Hale, chief economist at Kemper Financial Services Inc. "The trade account could help us in 1995 and 1996, but it's going to hurt us through the middle of next year." Agrees John P. Lipsky, chief economist at Salomon Brothers Inc.: "Look over the horizon, and 1995 is the year when you can conceive of mutually reinforcing growth."

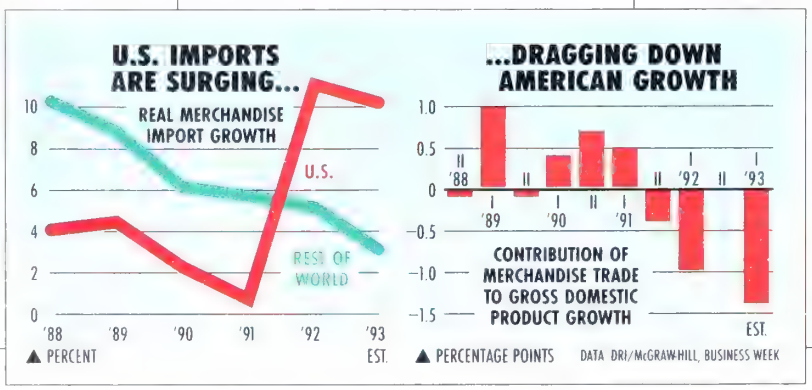
BACKFIRE. Take Mexico. Last year, the U. S. ran a big surplus, sending some $40 billion in goods south of the border. But Mexico's economy is expected to grow by only 1.5% in 1993—down sharply from 2.6% last year—and Mexican factories have cut back drastically on purchases of machinery and other capital goods. As a result, U. S. export growth to Mexico has slowed sharply, from 22% in 1992, to only 4% in the first half of 1993.

Why has the Mexican economy suddenly lost its spark? In part, it's beca President Carlos Salinas de Gortari deliberately boosted interest rates to tract foreign investors and fight in tion. That's the same decision Fede Reserve Board Chairman Alan Gre span made in 1988 and 1989, when raised the federal funds rate from 6 to almost 10%. And just as those r increases set the stage for the 1990 U recession, so could the Salinas rate creases backfire as well.

Mexicans were expecting a slowdo but nothing this serious. "I think m people, including the government, unc estimated the effects of this tight mo tary policy," says Jonathan E. Hea chief economist of Macro Asesoría Ec ómica, a consulting firm in Mexico C

Some of China's voracious demand imports is easing as well, as the gove ment clamps down on credit and slo growth in an attempt to cut inflati For example, China was one of world's biggest buyers of steel for mu of 1993, helping make up for weak mand in Europe and Japan. But Chin steel orders have slowed dramatica since June, creating a glut of some ty of steel products.

Neither Japan nor Western Europe likely to take up the slack anytime so Japan's economy, s fering from weak ca tal spending and t strong yen, probab contracted again in t second quarter. And t decline in the Germ economy, estimated be 2% this year, m continue into next ye With the Bundesba still maintaining tight-money, inflati



hting policies, "Germany is heading a double-dip recession" in 1994, says rgio M. Radaelli, an economist at ıman Brothers. Indeed, German comies are still laying off workers in ves: Mercedes-Benz on Aug. 24 anıced it will cut 14,000 more workers m its German payroll next year.

O CYLINDERS. The slide in Europe is ting such companies as Hewlett-kard Co., which reported slightly er-than-expected earnings on Aug. 18 ause of a big slowdown in orders m some overseas markets. "We've n consistently writing down our extations for Europe," says HP econot Richard C. O'Brien. Compared with computer maker's forecast six months ago, he says, "we're putting off by 6 to 12 months the timing of the recovery. I'm not convinced the bottom has been found yet."

Are there any bright spots in the world economy? It may be hard for an unemployed manager or defense worker to believe, but the U. S., weak as it is, is now the major source of global demand growth, with imports expected to rise by some 10% this year. Import demand is still rising in Pacific Rim and Latin American countries such as Taiwan and Argentina. And eventually, falling interest rates in France, Britain, and even in Germany should boost their economies as well.

But even when the European rebound finally arrives, it will likely have the look and feel of the weak U. S. recovery. That means in the longer run, the emerging economies such as Mexico and China are still the best bet for driving world growth, once they have dealt with their inflation problems.

An export-led recovery, when it comes, would be welcome news for the growth-starved industrialized nations. But for now, the world economy looks stuck in a slow-growth rut. The U. S. may stay up, mama, but only barely. And no one else is making the green.

By Michael J. Mandel in New York, with Geri Smith in Mexico City, Bill Javetski in Paris, Robert D. Hof in San Francisco, and bureau reports

Commentary/by Christopher Farrell

THE DANGER THIS TIME: INFLATION MAY BE TOO LOW

Early this summer, the markets were roiled by an inflation scare. Gold was surging, a hoary reminder of rising prices to a generation ared by high inflation and double-git interest rates in the 1970s. Feder- Reserve Board Chairman Alan reenspan talked of raising interest tes, and economists rushed to lift eir inflation forecasts.

Today, gold prices have retreated, ıd yields on 30-year Treasury bonds ıve plunged to 6.17%. Inflation fears e subsiding. Says Allen Sinai, chief onomist at Economic Advisors Inc., ı affiliate of Lehman Brothers: "The idespread perception of a 3% to 3.5% flation rate is wrong."

Possibly very wrong. During the ıst three months, producer prices fell a 1.9% annual rate. Consumer prices se at a mere 0.8% yearly pace, and any companies actually cut prices. ow, the danger is not that inflation is ised to break out soon but that cerin prices could come down too far. If , Greenspan, by threatening to tightı monetary policy, is sending the rong message to business.

UICK RETREAT. What's wrong with disflation? Plenty, if it leads to deflaon. "The inability to raise prices is using businesses to cuts costs and im payrolls," says Edward E. Yarıni, chief economist at C. J. Lawrence ıc. Workers, fearful of joining the nks of the unemployed, turn cautious ıd spend less. Slack demand dampens owth. Lackluster activity keeps a lid ı prices. Companies contract even ore. In the end, slow growth and low flation lead to more slow growth and w inflation.

John Maynard Keynes had it right

70 years ago. "The *fact* of falling prices injures entrepreneurs," he wrote in *Social Consequences of Changes in the Value of Money.* "Consequently, the *fear* of falling prices causes them to protect themselves by curtailing their operations."

The animal spirits of capitalism are certainly subdued, and signs of disinflation are everywhere. Procter & Gamble Co. has slashed prices on liquid detergents. Apple Computer Inc. has cut prices on computers by up to 35%. "I buy all the services and equipment for our company, and all I have to do is balk and vendors cut their prices," says Paul Getman, economist at Regional Financial Associates. All the evidence, from cutthroat global competition to retailing trends, suggests more downward pressure on prices. Oil prices are at their lowest point in three years. Inflation rates have been falling throughout the industrial world. In the six largest developed nations, high unemployment and ample capacity means further global disinflation and perhaps even outright deflation in 1994, says William Sterling, economist at Merrill Lynch & Co.

MISGUIDED. Consumers are certainly getting lower prices. Discounters account for 57% of department store sales, up from 47% five years ago. Tough competition from generic products is eroding prices on brand-name goods such as Pampers and Marlboros. "Consumer behavior is dampening inflation and, indeed, helps hold inflation in check," says Richard T. Curtin, of the University of Michigan.

If the underlying inflation is running closer to 1% than the 3% most economists assume, then interest rates are still high, after adjusting for inflation. That's partly why the economy has not responded better to low rates.

True, supply and demand imbalances will always send some prices skyrocketing. And no one wants a return to the vicious inflation of the 1970s. But in the midst of powerful disinflationary forces, the eagerness of Greenspan and his governors to raise interest rates at the first signs of faster growth is badly misguided. The danger is not that inflation in the 1990s will mirror the 1970s. It's that the economy won't get the stimulus it needs. The Fed is fighting the wrong war.

Chris Farrell writes on economics.

ROBERT NEUBECKER

EDUCATION

ENGLER SCRAPPED MICHIGAN'S "UNFAIR PROPERTY TAXES," A KEY SOURCE OF SCHOOL FUNDING

A CRASH COURSE IN CREATIVE FINANCING

Schools are broke, and the search for funds is breaking fresh ground

In the old days, local schools turned to bake sales to pick up a little spare change. In mid-August, Denver public schools took a big step into the future. Some 80 schools opened their buildings to provide room and board for 20,000 people attending World Youth Day ceremonies—and raked in $1 million. Such hospitality is born of hard times. In the face of voter hostility to new taxes, the 64,000-pupil Denver system is scrambling to narrow a $31 million budget deficit this year. To close the gap, it will do almost anything—from cuts to privatizing maintenance of its copier machines to food sales.

Denver is hardly alone in the financial plight of its education system. As predictably as summer turns to fall and yellow school buses return to the roads, chronic funding problems are plaguing U. S. schools. What's different now is that the voices for change are growing. "No other sane society goes through this annual problem," snaps Martin J. "Mike" Koldyke, a Chicago venture capitalist who is trying to cobble together a plan to close a $298 million deficit in the nation's third-largest school system so classes can begin on Sept. 8.

Indeed, alarm is spreading this fall like never before. Around the nation, there's "a growing sense that many public school systems are spending more and more money and producing less and less," says Benno Schmidt, president and chief executive of Whittle Communication's Edison Project, a private school-management company. Yet as politicians, parents, educators, and business leaders try to break the back of the crisis, they're frustrated almost everywhere by anemic state budgets and rising voter anger toward higher taxes. For schools, all this adds up to tough trade-offs. Faced with the real prospect that school revenues won't grow, educators are being forced to jury-rig schemes that make do with what they have.

Lest anyone think that a little tinkering will solve the financing crisis, however, Michigan Governor John Engler delivered a stunning message on Aug. 19. Posing in front of the historic o- room schoolhouse in Greenfield Villa- where Henry Ford once studied, the l- publican signed a bill that, starting ne- year, scraps the state's property t- That $6 billion levy provides 65% of t- state's school funding. "Let's face i- Engler said. "What we've had in Mic- gan is a 19th century system of edu- tion whose funding has been based o- unfair property taxes.... We can no longer accept in this state a monopoly o- mediocrity."

Opponents may yet overturn the Mi- igan bill in the legislature or in t- courts. But Engler's move underscor- how fed up many voters are with t- property tax, a key source of fundi- for most schools. In Michigan, scho- may have to be funded with a high- sales tax or higher income taxes. "I- not the answer to simply do away w- property taxes," says U. S. Educati- Secretary Richard W. Riley.

WIDE GAPS. Thanks to a broad array o- forces, other states are seeking th- own funding alternatives. A key ch- lenge: court rulings that find proper- tax-funded systems deliver unequal ed- cation—mainly because of economi- gaps between city and suburban d- tricts. In Michigan, for instance, per-p- pil funding ranged from $2,300 to $9,9-

The trouble is, parents are loath t- sign off on more taxes until they s- better schools. In California, the sig- tures of 1 million voters forced a prop- al onto the November ballot that wou- provide some students with a $2,6- voucher, paid from state funds, for u- at parochial or private schools. The p- posal likely won't pass, but it's a str- ing measure of popular discontent.

In the meantime, many politicians a- seeking more stopgap measures. In C- cago, educators and politicians blame t- sharp falloff in state funding in the pa- decade—from 48% to 33% of the budg- now $2.8 billion—for much of the cu- rent problem. Union givebacks and a new bond issue may tide the distr- over for two years, but not much long-

Massachusetts, however, may be forced to find a permanent s- lution. Three times since 19- state legislators have a- proved long-term plans for creased education spending and twice they have be- reined in. "We haven't h- the long-term commitme- necessary to do this," co- plains Norma L. Shapir- chairwoman of the Coun- for Fair School Finance. B- the state's high court ruled June that Massachuset- must guarantee quality ed-

SOME CRISIS POINTS

CONNECTICUT	Schools face a budget deficit, teacher layoffs, cuts in sports programs, delayed opening
ILLINOIS	Chicago schools won't open on Sept. 8 unless a $298 million deficit is wiped out
MICHIGAN	In August, Governor John Engler abolished property taxes that provide 65% of school funding
WISCONSIN	Milwaukee is trying vouchers for low-income students and may turn over some schools to management companies

DATA: BUSINESS WEEK

ion in poor communities. So the legis-
ure has agreed to spend an additional
3 billion annually by 2000. That likely
l require higher state taxes.
Yet relying on voter approval of ever
her taxes is risky. So, cities and
tes are looking at new approaches
hin existing constraints. Milwaukee is
ninistering a trial voucher scheme for
-income students and is considering
ning over some schools to for-profit
nagement companies. In New York
y, business is helping fund 16 New Vision Schools, small secondary schools with community input in deciding curriculums. And in Chicago, executives at such companies as CNA Insurance Cos. and Harris Bankcorp Inc. are urging employees to run for local school councils.

Meanwhile, more and more states and cities are decentralizing, turning key questions on hiring, firing, and budgets over to teachers, parents, and principals. In Chicago, there are encouraging early signs that such an approach is paying off. That raises the prospect of rationing funds, with more money going t
performing schools. "You've go
able to reward individual schools a
prepared to change management at schools not doing the job," says venture capitalist Koldyke, who also chairs Chicago's School Finance Authority. Harsh discipline. But anything less may not be enough to get the nation's schools earning higher grades.

By Richard A. Melcher in Chicago, with Julie Tilsner in New York, Stan Crock in Washington, and bureau reports

Commentary/by Mark Landler and Bart Ziegler

THE ROADBED HAS BEEN LAID FOR THE DIGITAL SUPERHIGHWAY

As you surf through 500 channels on your television a few years from now, remember Judge S. Ellis III. Why? On Aug. 24, the .S. district judge in Alexandria, Va., rew out a federal law that forbade ell Atlantic Corp. from entering the -programming business. In so doing, smoothed the way for a digital revotion that promises viewers hundreds channels and dazzling inractive services.

Ellis has cleared away a ajor piece of regulatory adwood that has weighed wn communications comnies. "This is a sea ange in this industry," ys Stuart C. Johnson, a ell Atlantic group presint. Among other things, e ruling should allow reonal phone companies to come full participants in uilding the much ballyoed information superghway. That's critical, beuse the price tag for the gital network could run to the tens of billions. Ca-TV companies already ay a major role. But they n't build it themselves.

The Baby Bells, with their phisticated digital networks and cacious wallets, are the other logical ndidates. Indeed, U S West Inc., Bell tlantic, and others have expressed inrest in building parts of the superghway. Trouble is, the 1984 Cable ct prohibits them from selling proams to customers in their own terries. Without this incentive, they're ss likely to spend the needed billions.

Consumers also could gain a lot om the ruling. Bell Atlantic wants to fer movies and interactive services ch as video games to 60,000 customs in Alexandria. The company has already struck deals with broadcast networks and Hollywood studios for programming. Such a service would rival the local cable-TV monopoly and offer consumers more choice. Eventually, Bell Atlantic wants to offer the service throughout its seven-state region.

Ironically, the ruling may also boost cooperation among phone and cable companies. For now, Bell Atlantic is going it alone. But other Baby Bells have been trying to forge deals with large cable operators to jointly build digital networks. U S West paid $2.5 billion for a 25% stake in Time Warner Entertainment, which owns Home Box Office and has 7 million cable subscribers. And industry executives say Southwestern Bell tried unsuccessfully to sell cable giant Viacom on a $2 billion alliance that would also have included cable operator Crown Media.

Media executives say phone companies now may be more inclined to strike deals with cable companies in their own territories since they can share programming revenues. "It seems a lot easier for a Bell Atlantic to buy into a cable system in their area," says Frank J. Biondi Jr., chief executive of Viacom.

More important, the Bell Atlantic ruling may improve what you see on TV. That's because it will uncork a new stream of money for programming. One of the big questions looming over the information superhighway is who will pay for all the sitcoms, movies, and other entertainment to fill the airtime. Phone companies would be a welcome source of funds.

Opening cable TV to the Baby Bells could improve programming: They have the money needed to make all those new shows

SAFEGUARDS. Some experts fear the ruling would enable phone companies to become monopolies in video services, just as they largely remain in local phone service. But Congress can banish that specter by passing rules that would prevent the Baby Bells from buying 100% of cable systems in their own territories and by keeping in place rules that they allow other programmers to rent space on their new video networks.

Now, the ball is back in the Clinton Administration's court. During the 1992 campaign, candidate Clinton called the information superhighway a national priority. By letting Judge Ellis' ruling stand, he would give substance to the rhetoric. And the Baby Bells and cable companies could get on with turning the information superhighway from a cute phrase into a concrete reality.

Landler covers the media business and Ziegler watches telecommunications for BUSINESS WEEK.

FPG

AUTOS

STICKING IT TO JAPAN WITH STICKER SHOCK

Detroit is barely raising prices—in fact, it's loading on options for a song

John Immel, a Dodge dealer in Fairbanks, Alaska, loves shoppers' reaction these days when they compare his cars with Japanese models. Tire-kickers, he says, often squint at the fine print on price stickers and exclaim: "Gee, you're $2,000 cheaper [than similar Japanese versions]." Big Three auto makers love it, too. As their price advantage sinks in with consumers, Detroit's market share has jumped nearly two points, to 74.6%, since January, on top of a 1.5-point gain last year.

Now, as the industry gussies up new models for the start of the 1994 model year on Oct. 1, Detroit is battling to keep its comeback against Japan zooming ahead. The strategy: to raise list prices only moderately while giving buyers a break by offering deals on popular option packages, slashing dealer margins, and pushing low-cost lease deals. Detroit is also rattling sabers about another dumping suit, claiming Japanese manufacturers haven't raised prices enough to match the soaring value of the yen.

U.S. CARMAKERS ARE ALSO UNVEILING SOME NIFTY NEW MODELS, SUCH AS FORD'S UPDATED MUSTANG, DUE OUT BY YEAREND

Japanese carmakers are under enormous pressure to raise prices. Worldwide sales have slumped, while the yen has risen 17% vs. the dollar this year—hammering earnings. On Aug. 24, for instance, Honda Motor Co. reported that its pretax profits for the quarter ended June 30 skidded 55%, to $148.5 million, on sales that fell 17.3%, to $8.6 billion.

To avoid price hikes, the Japanese are furiously cutting costs. On Aug. 24, Mazda Motor of America Inc. laid off 175 people, including Executive Vice-President Clark J. Vitulli and four other top execs. Marketing Vice-President Jay Amestoy calls the cuts "an effort to maintain competitive pricing."

INSULATED. How much higher will stickers climb? Final 1994 prices won't be out for a few weeks. But Dean Witter Discover & Co. analyst Ronald A. Glantz expects Detroit to boost prices 6% on average, partly because of standard equipment such as passenger air bags. Japan's prices may rise 8% or more.

But Japan could try to hold the line on models made in the U. S. Japanese midsizes—the Nissan Altima, Toyota Camry, Honda Accord, and Mitsubishi Galant—are U. S.-built, which helps insulate them from exchange rate pressures. Analysts expect Honda's all-new 1994 Accord, from Marysville, Ohio, to be priced only slightly above the 1993 model, which ranges from $14,130 to $22,100. Likewise, Toyota Motor Co. will probably try to keep in check the price of its Camry, built in Georgetown, Ky. Japanese makers "are going to be sure that everything they build here sells like hot cakes," says Christopher W. Cedergren, of researcher AutoPacific Group Inc.

Detroit, meanwhile, is doing everything it can to stick it to Japan. For starters, it has a few nifty new models coming out, including a redesigned Mustang from Ford Motor Co. due at yearend. But Detroit's main weapon is the concept of "value pricing." In place of the usual dizzying array of options, the Big Three are pushing attractively priced models outfitted with popular features such as air conditioning and automatic transmission. The idea: to eliminate haggling with dealers and pare back rebates—a technique that has helped make General Motors Corp.'s Saturn Corp. subsidiary successful.

Ford has used the technique to boost sales of its Thunderbird model 100% so far this year. And on Aug. 24, GM unveiled special package deals on seven popularly equipped 1994 Oldsmobiles. The Big Three are applying the approach heavily in California, where pan owns half the car market. There, has announced deals on 24 Chevro Pontiac, Buick, Cadillac, and GMC m els. A Pontiac Grand Am that lists $15,509 this year, for instance, will for $13,995 in 1994.

The Big Three are also using attr tive lease deals to pull in customers. late August, Chrysler Corp. unveile new leasing program with partner Capital Corp. that Theodor R. Cunni ham, Chrysler's vice-president for sa says will double its leasing business, as much as 9% of sales in 1994. F already leases 26% of its cars; GM 14

LEASERS KEEPERS. Ford, meanwhile, test-marketing a 12-year lease that, i catches on, could dramatically boost c tomer loyalty. In early August, f Ford and Lincoln-Mercury dealers in L Vegas began promising consumers new car every two years for a fi monthly payment if they agreed to s a 12-year contract. At the end of t period, customers would get to k their last vehicle, at no extra charge.

Some Japanese rivals will have trou emulating Detroit's new pricing stra gy. A few models, such as Nissan Mo Co.'s Altima, built in Smyrna, Tenn., a getting a big sales boost from va pricing similar to Detroit's, but the hi yen will make price-cutting hard for o er companies. Randall R. McCathren Bank Lease Consultants Inc., based San Leandro, Calif., predicts that fin cially strong companies such as Toy and Mitsubishi will try to match Detr in leasing, but he thinks hard-pres Japanese makers such as Mazda v have a tough time raising the cash Detroit-style lease programs. Now if t Big Three can just resist raising th prices too much, they can keep the pr sure on.

By David Woodruff in Detroit, w Larry Armstrong in Los Angeles

Dewar's

100TH PROFILE:

DIANE PETERSON

HOME:
Los Angeles, CA

AGE:
39.

PROFESSION:
TV and Movie Stunt Woman.

MOST FEARLESS ACT:
"Discussing politics at a dinner party in California."

BOOK SHE'S BEEN MEANING TO GET TO:
"Dante's Inferno."

PROUDEST MOMENT:
"Either jumping from a moving train or balancing my checkbook."

ON DRINKING DEWAR'S:
"Unlike most of what I do, this is one thing I can definitely advise: try this at home."

ELECTRONICS

POW! BAM! SOCK!

The video game war heats up, as the toys get more sophisticated

The video game business is about to grow up—fast.

Nintendo Co.'s Aug. 23 announcement that it will team up with Silicon Graphics Inc. to create a new generation of games portends the start of a whole new market. Nintendo and Silicon Graphics are just two among a host of companies trying to set a new standard in home electronics. The objective: machines that not only play games but also run educational software and even act as the brains for interactive television.

In the process, companies such as Sega, 3DO, and Atari, among others, are challenging the computer and entertainment industries for dominance of the next-generation market for electronics. "Each of these companies has bigger plans than just a game machine," says Gilman Louie, chairman of game-software maker Spectrum HoloByte Inc.

The technology that's suddenly being incorporated into video games is impressive. The Nintendo-Silicon Graphics machines are expected to hit the market in two years, cost less than $250, and feature microprocessors and video and animation that would put today's $2,000-plus desktop computers to shame. After lagging behind the technical advances of archrival Sega Enterprises Ltd., "we just punched [Sega] in the nose," boasts Nintendo senior vice-president Howard C. Lincoln.

Plenty of other competition is developing. The video game wars started escalating last January when William L. "Trip" Hawkins III announced his new game technology, the 3DO Interactive Multiplayer. That $700 device, due this Christmas, includes a CD player that can present interactive movies and games as well as music. Atari Corp. followed with a $200 machine called Jaguar, also due this Christmas, with an optional $200 CD player available next year. Sega already sells an add-on CD player to add live-action video to its Genesis game player, but promises a brand-new machine within six months.

AN EDGE. Nintendo, however, may now be the team to beat—at least if it can keep the price of its machine at the promised $250. Silicon Graphics is certainly motivated to help Nintendo succeed. It needs to sell the microprocessors used in its workstations into high-v ume new markets to keep the manuf turers who make the chips profitable

Aside from that, Nintendo plans prime the market before launching new home games. It is offering to cense the technology first to manuf turers of arcade video games, such Capcom USA Inc. and Acclaim Entert ment Inc. Arcade hits usually transl into home hits a year or two later, Nintendo hopes to hit the home mar with an edge. Biff, boom, whap: Bef the game makers are done, they'll h started a fight that will make Mo Kombat look like kid stuff.

By Richard Brandt, with Kathy Rebe in San Francisco

THE VIDEO-GAME EVOLUTION

Product/ Price	Date available	Quality/ Features
SEGA CD $300	Nov. 1992	2-dimension animation; grainy video
3DO MULTIPLAYER $700	Late 1993	3-D animation; near-TV-quality video
ATARI JAGUAR $200	Late 1993	3-D; near TV-quality with $200 add-on
NINTENDO PROJECT REALITY $250	Late 1995	Expected to have film-quality, 3-D video

DATA: COMPANY REPORTS, BUSINESS WEEK

HOLLYWOOD

MOVIE SMASH, GAME CRASH

Kids won't shell out for games based on blockbuster films

Awesome. Mega. Cool. Pick your hype, and the movie *Jurassic Park* has exceeded it. Indeed, Steven Spielberg's slam-bang tale of man-eating dinosaurs is already the second highest-grossing movie of all time, after *E. T.—the Extra-Terrestrial*, with a heady $306 million in ticket sales. So when Sega of America Inc. trotted out its Jurassic Park home-video game on Aug. 10, another record-breaking smash seemed just a few dollars away.

Well, not exactly. A funny thing has happened to Hollywood filmmakers, who covet the $6 billion home-video-game market. Jurassic Park, like many other games based on recent box-office winners, is selling at a less-than-brisk pace. Indeed, Jurassic Park will be lucky to sell a million copies at close to $50 apiece by Christmas. That would make it Hollywood's biggest video-game hit—but Street Fighter II Turbo, released on Aug. 13, is already outselling Sega's dinosaur game two-to-one.

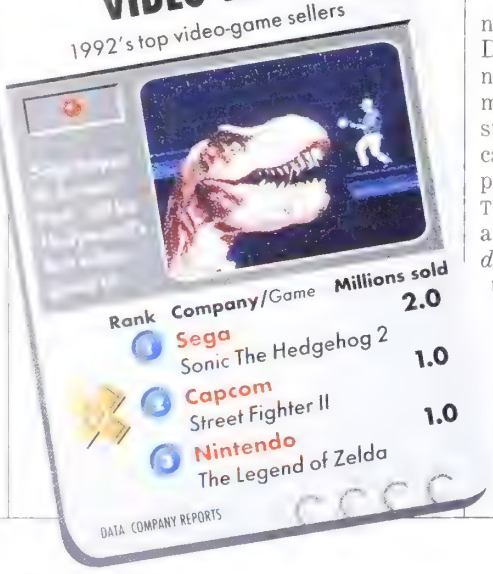
What's the problem? Hollywood's Gucci brigade learning an awful truth: The Ninte generation likes to hone its skills in cades before buying versions of gar to play at home. And it wants gar that challenge and excite. Yet m moviemakers simply auction off licen to their titles and characters. Thus, resulting products have little of the l and zing of the movies.

Tinseltown hopes a rush of new te nology will help change all that. W Disney Co. became a full-fledged p ner with Virgin Games Inc. to tap t maker's new methods for digitizing storing animated characters in a ga cartridge. The characters then can played back with a quality approach TV cartoons. The two companies are ating the video-game version of *Al din*, which goes on sale on Oct. 19. " technology knocked our socks o marvels Disney President Jeff Katzenberg. "It allows us to achie whole new level of presentation storytelling in a video game."

Hollywood hype, to be sure. the studios are taking plenty of ot steps to boost the sales of mo based games. To combat the y

VIDEO HITS

1992's top video-game sellers



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*Source Thomas A. Minnella, author *The Copier Productivity Primer*

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long lag between the hoopla surrounding a hit movie and its release as a game, for instance, studios are providing game companies with an early peek at scripts and giving them access to movie sets. They're lending their massive promotional machinery as well. *Aladdin* home videos will be stuffed with a flier advertising the game, and Disney will stage events at its stores and theme parks, and air a special on the Disney Channel, to mark the game's premiere.

Still, studios don't expect the big payoff until most games shift to CD-ROM. Those silvery disks can hold actual video clips from the movie, plus much of the soundtrack. "We're seeing the emergence of a new type of product that combines video games with the world of movies, music, and television," says Olaf Olafsson, president of Sony Imagesc which will release game versions Sony flicks *Cliffhanger* and *Last Acti Hero* this fall. But a full shift to the n technology may take three years. So now at least, Hollywood's video gam can expect a continued pounding fr the Super Mario Bros. and Sonic T Hedgehog.

By Larry Armstrong in Los Ange

TOURISM

THE FALL OF NIAGARA FALLS

The throngs have thinned, and hotel and shop owners are hurting

Just after sunrise on Aug. 28, some 40 hot-air balloons will take off from Niagara Falls, Ont. They'll sail over North America's most famous waterfall, then alight on the U. S. side.

The balloons headline a four-day festival called Uplifting Niagara. The area needs it. Tourism in the place once known as The World's Most Famous Address has plunged almost as precipitously as those barrels daredevils used to ride over Horseshoe Falls.

Last year, recession and one of the coldest summers on record drove tourism revenues down some 40% from their peak in 1989, to less than $350 million, according to the Niagara Falls [Ontario] Visitor & Convention Bureau. The occupancy rate for the town's hotels plunged to just 38%, thanks in part to a 1980s building boom that pushed the number of rooms up 30%, to 10,000. And this year, room rates are 20% below the levels of the late 1980s, estimates Dino A. DiCienzo, director of operations for Canadian Niagara Hotels Inc. "Very, very few hotels are making money," he says.

END OF THE RIDE. Kinder weather has boosted tourism a bit this summer, but "we don't anticipate bouncing back until the end of the decade," says Amy Bignucolo, the Convention Bureau's president. Indeed, signs of lasting depression aren't hard to spot. The famous Ferris wheel at Maple Leaf Village has been torn down. The Village itself, the town's largest shopping mall, recently emerged from receivership under new local owners. Across the street from the Minolta Tower, with its commanding view of the falls, a souvenir shop advertising "low, low prices" has shut down for good.

The stunning falls still have the power to attract visitors (table). But officials say tourists stay an average of only four hours. Take Kathryn Hoskins, an American vacationer. She stopped "for just a few hours" one recent Saturday before continuing home to Cincinnati from her trip to Toronto. "We've become the pit stop rather than the destination," worries James V. Glynn, president of Maid of the Mist, the famous fleet of boats that steam under the falls.

Interest in more fashionable destinations is part of the problem. "Niagara Falls faces a lot more competition today," says Constance Lie-

A snapshot of tourism at Niagara Falls

ONTARIO		NEW YORK
12 MILLION	ANNUAL VISITORS	8 MILLION
1.2 MILLION	MAID OF THE MIST PASSENGERS	500,000
10,000	HOTEL ROOMS	3,700
38%	1992 OCCUPANCY RATE	52%
14.4%	UNEMPLOYMENT RATE	11.9%

DATA: NIAGARA FALLS CONVENTION & VISITORS BUREAU, BW

der of planning consultant LDR Inter tional Inc. And after gawking at falls, there's not much to keep visit interested. The Canadian side's draw: a dated, carnival-like strip feat ing wax museums, haunted houses, glow-in-the-dark miniature golf.

The New York side offers even le The town's ambitious recent devel ment, Falls Street Faire & Station, virtually abandoned. The center failed attract many tourists, and most of was shuttered last year. The Rama Inn, which offered the most hotel me ing space, closed earlier this year.

DOUBLE WHAMMY. Worse, the touri slump has coincided with a drastic d in local manufacturing. Niagara Fa N. Y., with a population of some 62,0 has lost a third of its manufactur jobs in the past decade, mainly from c at chemical makers. Similar losses the Canadian side have pushed un ployment there to a staggering 14.4%

Hence, some unusual attempts to build the tourist trade. Ma Wayne Thomson of Niaga Falls, Ont., is pressing fo 75,000-square-foot casino, there's talk of a new conv tion center. Plus, the mayo backing a proposal from harishi Mahesh Yogi and gician Doug Henning to b a $630 million theme pa called Maharishi Veda La featuring "the world's levitating building."

But the Ontario gov ment says it won't prove any additional c nos until it sees how first gambling hall— to open next year in Windso fares. A convention center is no imminent. And even Thomson adm that he's not "putting any eggs in Veda Land.

Ambitions are more traditional on U. S. side. Niagara Falls (N. Y.) Ma Jacob A. Palillo stopped a plan fo huge factory-outlet mall that would h required $30 million from the city. stead, he's pushing gradual redeve ment of the depressed downtown.

Until then, it's balloon time.

By William C. Symonds at Niagara F

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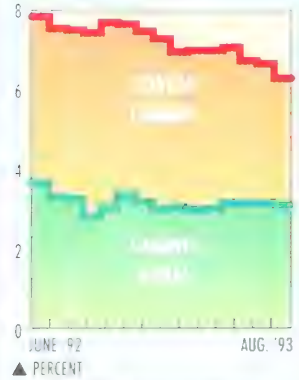
EDITED BY KEITH H. HAMMONDS

PRIME-RATE RUT

Long-term bond yields have dropped 1½ percentage points in 18 months. That's driven down mortgage rates but not commercial banks' prime lending rate, stuck at 6% since June, 1992. Why hasn't the prime dropped? Largely because short-term yields haven't moved much. Below, yields on 30-year and 3-month Treasuries:

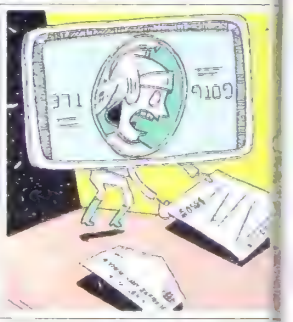


DATA: EFFICIENT INFORMATION SYSTEMS INC

INDIANA SHOOT-OUT FIZZLES

▸ It seemed a rather simple merger. Back in December, Cincinnati Gas & Electric agreed to acquire PSI Resources in a stock swap valued at $24.50 a share. But once IPALCO Enterprises, another Indiana utility, launched a hostile takeover bid, the battle exploded into a high-wattage shoot-out. On Aug. 23, IPALCO said it was withdrawing its $1.73 billion bid for PSI. The announcement came after two major institutions, which IPALCO would not identify, balked at backing the takeover.

THE GREEN CARD TURNS RED ALL OVER



The little guy wins one. Douglas Coulter, an American professor at the Russian Economic Academy, has a heavy load teaching his eager students the intricacies of the free-market system. So he resented the time it took to clear up a dispute with American Express. While he was in Moscow, the company misplaced his $1,000 wire-transfer payment, then canceled his card.

When Coulter returned home on leave in August, he brou suit against Amex in the Ossipee (N. H.) District Court n his home. His tab: $50 an hour for the 7.5 hours spent prov he had paid his bill. The court on Aug. 16 awarded Coulter full $375—the first time a court has awarded an Amex ca holder compensation for time wasted in a billing dispute. feel terrible about this," says Maureen Bailey, vice-presid for public affairs. Amex says it will pay the judgment. Coul says he can live without his card.

THAT IBM-INTEL BRAWL IS OFF

▸ The computer industry was buzzing following an Aug. 23 report that IBM is set to develop a clone of the Intel chips that power some 70% of the world's personal computers. In fact, say IBM insiders, the company is building a "clean room" version—an Intel-like chip built from the ground up. But fight fans may be disappointed. Insiders say Big Blue, content to spend hundreds of millions on its PowerPC chip venture with Motorola and Apple, is not looking to compete with Intel *mano a mano*. Instead, the clean-room effort may enable IBM to design a chip that could run both Intel-based and PowerPC-based software.

BORLAND GOES ON THE ATTACK

▸ It hasn't been the best year for Borland International. The software maker has been battered by price wars. It also has lost decisions in its seemingly unending court battle with Lotus Development, which asserts that Borland's Quattro Pro spreadsheet violates Lotus' copyrights. Now, Borland is going on the offensive. On Aug. 24, it announced a new pricing strategy, attempting to segment the market. A new "wo group" version of Quat Pro that several people use at once will list $495.95, and a new single-u version will sell for just $9 in such stores as Sea Kmart, and Costco. To sp interest, Borland will sell workgroup product for $ and the single-user vers for $50 until Jan. 15.

DEERE LEADS A FARM BELT CHEER

▸ Not all the news from the nation's flooded heartland is bleak. On Aug. 24, agricultural equipment manufacturer Deere announced profits for its fiscal third quarter of $100.1 million, up from $9.1 million a year earlier and more than 50% higher than Wall Street estimates. Sales jumped 17%, to $2 billion.

Rising farm incomes helped drive the profit surge. The company says net farm cash incomes will go as high as $70 billion this year, up from an earlier prediction of $60 billion. Low interest rates and the economic recovery are also fueling purchases of Deere's combines and large tractors. As a result, the company says output in 1993 will be 10% above last year. The ultimate winner? Deere stockholders. The company's shares rose by 7.6% on Aug. 24, hitting 74, a 52-week high.

P&G HAS A LOT TO CHEW ON

▸ Anybody interested in a r lion pounds of low-calorie coa butter substitute? Proc & Gamble would rather be warehousing the stuff mix of fatty acids it develo called caprenin. P&G, seek $10 million in a court s claims candymaker M stopped paying for capre in December, despite a dea buy the calorie-reducer for Milky Way II, whose natio roll-out P&G says has been layed. Mars won't comm on the suit, but says it "happily" selling Milky W II in some markets. P& only other customer for prenin, Hershey Foods, tes a reduced-calorie bar last y but is chewing over the sults. All that caprenin r be sitting around for a wh

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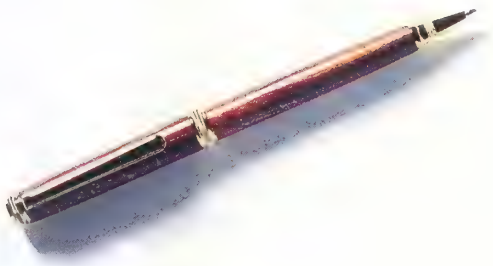

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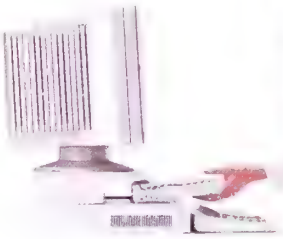

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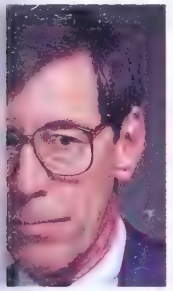
EDITED BY STEPHEN H. WILDSTROM

AN CLINTON SWAY EALTH REFORM'S MOST CRUCIAL CRITIC?

s President Clinton's advisers put finishing touches on the Administration's plan for health-care reform, they're focusing on its toughest critics. No, not doctors, pitals, employers, or any other health-care interests. The and highest hurdles the plan faces—before being introed as legislation—are the anonymous analysts at the Conssional Budget Office. The CBO has the final say in "scoring" impact of health reform on the deficit. Under the enement rules of the just passed deficit-reduction plan, the lth program can't increase red ink in the short run. And to ill Clinton's promises, it must trim spending after 1998.

Administration experts insist the savings are there. They e shipped reams of data to Capitol Hill in support of their rtling claim that reform can pay for itself by sharply slow- the growth of health-care spending. But the CBO is a d sell. "Over the next 10 years, it will be exceedingly dift to realize significant budgetary savings as long as any reform proposal extends coverage to the uninsured," warns CBO Director Robert D. Reischauer.



O's REISCHAUER

TOO GLOOMY. The budget office saves its deepest skepticism for "managed competition," the combination of market incentives and government regulations that provides the broad outline of Clinton's plan. CBO analysts give little credence to the Clintonites' claims that increased competition in the medical market can produce big savings.

"CBO just doesn't believe in managed petition," grumbles a top Clinton health aide. Some private lysts agree that the CBO is too gloomy. Washington health nomist Jack A. Meyer, for example, concluded that a man-d-competition bill sponsored by conservative Democrats ld cut annual health spending by between $5 billion and $51 ion by 1998. The CBO found the measure increased spending $34 billion.

The CBO's bias for regulation over competition has already influenced the White House. Instead of claiming savings from increased competition or streamlined administration, the Clintonites are counting on caps on health-care premium hikes to convince the CBO that the plan adds up. But controls will stiffen the opposition of health-care providers and may jeopardize Corporate America's support for reform.

Twenty years of unsuccessful efforts to contain health-care costs support the CBO's caution. It'll be tough to overcome the budget analysts' skepticism that Clinton can provide more care for less money.

By Mike McNamee

THE ADMINISTRATION CRUMPLES OVER 'GREEN' PAPER

Clinton's Administration is having a tough time delivering on its environmental good intentions. Early on, Western senators forced the White House to gut a proposal that would have jacked up fees for using public lands. Now, sources say the Administration is bowing to stiff opposition from the politically potent paper industry and is watering down a plan to promote use of "environmentally preferable" paper. "They're getting hammered," says Allen Hershkowitz, a Natural Resources Defense Council scientist.

The Administration is expected to drop a plan that would have favored purchase of paper made without chlorine bleach, whose use produces cancer-causing dioxin as a by-product. It will reduce a requirement for "post-consumer waste" in recycled paper from 15% to 10%. And it will abandon an effort to encourage states to comply with federal paper-use rules. The scaled-back plan is a victory for the American Forest & Paper Assn., which hired Betsey Wright, Bill Clinton's chief of staff in the Arkansas statehouse, as a lobbyist. The White House is expected to release an executive order on paper use soon after Labor Day.

By Mary Beth Regan

PITAL WRAPUP

NDIDATES

ere it comes, ready or not: The 1996 Presidential campaign is getng under way. On Sept. 10-11, Washgton will host a gathering of 2,000 acvists for the convention of the hristian Coalition, the political-action m of televangelist's Pat Robertson's ovement. All of the GOP's likeliest ndidates for the nomination plan to op by. Participants in this first "cattle ow" of the '96 campaign will include enator Phil Gramm (R-Tex.), former ousing Secretary Jack F. Kemp, forer Education Secretary William J. ennett, and ex-candidates Patrick J. uchanan and Robertson himself. And, of course, Senate Minority Leader Bob Dole (R-Kan.), just back from a vacation-cum-campaign swing through New Hampshire, will be on hand. Remember: fewer than 1,200 campaigning days till November, 1996.

CAMPAIGN FINANCE

Maybe it's the soggy economy. Or perhaps it's the public's sour mood toward politicians. But the Federal Election Commission reports that, during the first six months of 1993, campaign funds raised by Senate candidates declined for the first time in six years. The $25 million raked in by candidates for the 34 Senate seats up next fall is down 25% from the take two years ago and down 15% from the same period in 1989. As usual, powerful incumbents are scarfing up the lion's share of the money. Finance Committee Chairman Daniel Patrick Moynihan (D-N.Y.), for example, has $1.5 million on hand—with no challenger in sight. But some challengers are doing well, too. In Arizona, Republican Representative Jon Kyl has raised more than his Democratic opponent, embattled incumbent Dennis DeConcini. And Representative Jim Cooper (D-Tenn.) has a $1 million war chest, 13 times as much money as appointed Democratic Senator Harlan Mathews, who has not yet declared whether he'll seek another term.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CHINA

CONSTRUCTION IN GUANGZHOU: THE ECONOMY IS COOLING

BETWEEN REFORM AND A HARD LINE

China's economic czar is battling the old guard and local capitalists

Zhu Rongji, China's economic czar, has made a lot of enemies in the past two months. Since launching his plan to rein in China's overheating economy, Vice-Premier Zhu has forced bankers to call in unauthorized loans, cast a chill over the highly speculative real estate market, and publicly humiliated local officials who dared question him. With Zhu antagonizing so many of China's elite, skeptics in the West are questioning whether he can survive.

But instead of backing down, Zhu is calling for even more radical change. His aides are developing sweeping proposals to modernize China's archaic banking and tax systems and cut loose money-losing state enterprises. Sources say an outline emerged at high-level economic planning meetings in August. This new wave of reform is the key to accelerating China's transition from a centralized system to a market economy.

Zhu is pushing ahead with all this change just as the Clinton Administration is stepping up pressure on Beijing (page 39). With the U.S. slapping sanctions on China for exporting missile technology to Pakistan, Beijing will be forced to respond in kind. While Zhu has little influence over foreign or military affairs, his conservative rivals will use the U.S. move as a way to gain clout. Imposition of U.S. sanctions, says one Western diplomat in Hong Kong, "will give the hard-liners a way to sound off on nationalist pride and enhance their position."

Zhu's job is hard enough, though the first phase of his reforms has already shown some success. The goal was to use some blunt instruments of state power to regain some control of the economy and to prop up the teetering banking system. The economy, which grew at an annual rate of 13.9% in the first half of 1993, is now cooling. Industrial production in July was off by 5.1% from June. "He's off to a good start," says George Lewis, regional economist for Smith New Court Securities Ltd. in Hong Kong.

DEBT AND TAXES. Now Zhu is looking to change China's institutions themselves. Chinese officials call the goal "macro-control." The reforms would create an economy that can be guided and even controlled by Beijing but managed by provincial officials. Teams of experts are working up a program for making major changes in four key areas: banking, finance, investment, and managing state properties. If they get their way, the People's Bank of China will be modeled on the U.S. Federal Reserve system, the country will have a radically new tax code, and the state-run enterprises will be converted into free-market companies within five years. While many of these proposals have been debated for at least a decade, analysts in Hong Kong say Zhu is determined to submit them for approval at the Communist Party plenum in October.

The first target will be banking reform. Under the proposed scheme, the People's Bank would regulate monetary policy and spin off its commercial-lending operations. Beijing would also create new commercial banks, including an import-export bank. "A Federal Reserve bank would be much more effective than the current system, says Du Ya director of the China Market Research Institute in Beijing.

ZHU'S NEXT TARGETS

BANKING Replace the central bank with a decentralized Fed-style system

TAXES Create new system to clearly separate national and provincial revenues

STATE CORPORATIONS Cut loose central government enterprises over five years

LEGAL SYSTEM Adopt new laws on consumer protection, securities regulation, accounting procedures

DATA: BUSINESS WEEK

lso under consideration is a massive
amping of the tax system to ensure
central government gets a steady
v of funds from the provinces. Local
norities now contribute "contracted
tas" to Beijing and keep the rest
themselves. The new system, if it
pproved, defines central-government
es, local taxes, and those shared by
two. That way, Beijing can make
e it gets its fair share. Since reforms
ted in the late 1970s, provincial lead-
have become increasingly adept at
venting taxes from flowing to Bei-
. According to the official *People's*
ly, taxes collected by the central
ernment dropped to 14.7% of gross
onal product in 1992—down from
% in 1978.

ut even before the tax reform, Chi-
e officials are expected to review
it draft laws ranging from consumer-
ection to accounting and securities
s. The consumer legislation, the first
ts kind in China, would confer legal
us on consumer groups that are
oping up across the country.

ANCING ACT. Enacting these ambi-
s plans won't be easy. Local leaders
resisting the creation of regional
nches of the People's Bank of China.
y view the new proposals as a back-
e means of increasing central-govern-
it power. Even Zhu's relatively mod-
credit-crunching measures are
ning into resistance. Bank officials
l to call in many loans to speculators
an Aug. 15 deadline set by Zhu. But
far, the officials have only managed
ein in half the loans they had target-
Zhu himself has expressed frustra-
at the government's inability to
e out property speculation.

s he charges ahead, Zhu continues to
k a political tightrope. While Deng
oping lives, Zhu will likely have a
ndate for long-term reforms. But Zhu
ds to do more than prevent the econ-
from deteriorating. If he can, Zhu
silence his critics and become the
ler in the race to replace Deng.

y Joyce Barnathan in Hong Kong, with
t Forney in Beijing

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GETTING TOUGH WITH CHINA COULD BE TOUGH ON THE U.S.

Sanctions over arms sales to Pakistan might hurt trade with Beijing

Just three months after renewing China's most-favored-nation trading status with only modest conditions attached, the Clinton Administration is getting tough. The U. S. has for months been collecting evidence that China transferred M-11 missile parts to Pakistan in violation of pledges not to traffic in such technology. Now, the data add up, and sanctions have a green light.

But punishing China is no simple matter. State Dept. officials say the sanctions, largely affecting U. S. satellite parts and technology, could cut into an estimated $400 million to $500 million of future U. S. exports. For some U. S. companies, such moves could jeopardize a promising new market. And in the end, they may not do much to crimp Beijing's exports of sensitive weapons.

CHINESE TROOPS: BEIJING RESENTS THE SALE OF U.S. FIGHTERS TO TAIWAN

Arms sales are but one of the thorny issues in U. S. relations with Asia's new economic superpower. Washington is also unhappy about China's dismal human rights record. And Beijing has failed to act to cut its trade surplus with the U. S.—which could reach $25 billion this year, vs. $18.3 billion in 1992. But the Administration's focus on Asia—the booming China market in particular—as a prime growth area for American exports limits U. S. leverage with Beijing. That's why President Clinton opted for the narrowly targeted sanctions.

A ZINGER. Even limited sanctions will sting, though. One possible casualty: a long-pending $7 million-plus order for a Cray Research Inc. supercomputer. China wants the high-speed computer for weather forecasting, but it is powerful enough to design nuclear weapons. Instead, China could turn to Japanese suppliers, such as Fujitsu Ltd. or NEC Corp. If that happens, a Cray official says, "we'll effectively have opened up [the China market] only to see it be captured by a non-U. S. company."

Other American companies could get zinged if China retaliates. Now that the U. S. has imposed targeted sanctions, "the Chinese [will] probably react in a targeted way themselves," says Richard A. Brecher, head of business advisory services at the U. S.-China Business Council in Washington. One potential victim is American Telephone & Telegraph Co., which has a crack at $1 billion worth of business in China.

Making matters worse, the sanctions may not have their intended effect. With nothing to lose, China may hawk even more missiles. To head that off, the U. S. may signal that it would waive sanctions if Beijing signed on to arms-control pacts. "If China were interested in becoming a more active participant in existing nonproliferation regimes, it could influence U. S. views" on the sanctions, says a senior Administration official.

For example, Washington wants Beijing to rejoin Big Five talks on limiting conventional-weapons sales to the Middle East. China dropped out of the group—which includes the U. S., Britain, France, and Russia—after the U. S. announced the sale of 150 F-16 fighter jets to Taiwan last fall. The U. S. might also press China to join the nuclear suppliers group, which would oblige Beijing to accept international inspection of nuclear power equipment shipments.

But given China's broken promise on missile transfers, arms-control experts are skeptical that Beijing would honor new pledges. It likes the hard-currency earnings from selling arms, and besides, armaments factories operate increasingly beyond the Foreign Ministry's control. "We have tried constructive engagement with China," says Jon Wolfstahl, senior research analyst at the Arms Control Assn. "It's time to brandish the stick rather than offer a carrot." Trouble is, whacking China hurts the U. S., too.

By Amy Borrus in Washington, with Pete Engardio in Hong Kong and Russell Mitchell in San Francisco

TOP TO BOTTOM: PHOTOGRAPHS BY FRANK FOURNIER/CONTACT; GAMM

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/HAT? EVERYDAY BARGAINS? HIS CAN'T BE JAPAN

scount chains are starting to shake up the staid world of retailing

ff a back street near Ikebukuro station in northwest Tokyo, you take a graffiti-covered elevator it several levels of bowling alleys and usement arcades. At the fifth floor, doors open onto a room crammed h gun-metal-gray shelves full of box- of electronic goods, mostly personal nputers and peripherals. In one cor- are two men and a cash register. ey'll sell you whatever you want at gain prices, but that's all: no lanation, no free service, no ting. You're in one of 11 res operated by Step Co., a t-growing discounter.

he chain is a far cry from the ving elevator ladies and court- service of traditional Japanese artment stores, but it's the v face of Japanese retailing. gain hunting is in. The dis- nters are shaking Japanese ailing to its foundations. As t of their drive to win market re, they are finding shortcuts ough Japan's labyrinthine dis- ution system and taking the l in pricing.

uch efforts seem to fit nicely h new Prime Minister Mori- Hosokawa's plans to reduce an's trade surplus, reform distribution system, and give sumers a taste of the benefits the high yen. The upshot ld be a bonanza for U.S. ex- ters of everything from cos- ics and computers to oranges lumber. From 15% to 30% of at the discounters sell is im- ted—vs. less than 5% at de- tment stores.

CHHEADS. Discounting's al- shows in the numbers. Sales the 116 members of the Japan De- tment Stores Assn. have declined for straight months. In contrast, Step ex- ts its sales to swell 10% this year. es at Mr Max Corp., a discounter of sehold goods and appliances in the thern island of Kyushu, jumped 18% he fiscal year ended last March, and 5% increase is predicted for this year. iscounting is invading retailing sec- by sector, with strong beachheads ady in clothing, furniture, and elec- ic goods. Not long ago, notes Paul Heaton, an analyst at Baring Securities (Japan) Ltd., retailers of electronics were each tied to a single manufacturer. But "new electronics retailers are prepared to sell anybody's equipment, if it's cheap enough," he says. And the high yen is only accelerating the trend, as other retailers opt for cheap imports. Japan's imports of men's suits rose 58% last year, for example, thanks to aggressive clothing discounters.

THANKS TO DISCOUNTERS, SUIT IMPORTS HAVE SOARED

Of course, change isn't coming overnight. Many discounters say recent reforms to make it easier for retailers to set up large-scale stores have not gone far enough. "Things haven't changed much since the old days," says a purchasing manager at a furniture discounter in northern Japan. Official waiting periods for store expansions have been shortened, he says, but bureaucratic delays of a year or more are still common. Such waits, he says, are disrupting his company's plans to boost volume and raise imports from 20% of sales to nearly half.

One retailer that is going head-to-head with the bureaucrats is Jonan Denki, a discounter with $12 million in yearly sales. Toshio Miyaji, its president, recently started importing surplus cosmetics from the U.S. via Okinawa, where he pays no duties. As a result, Miyaji is able to sell such imported items as Chanel lipstick for around $24, compared with nearly $40 at department stores.

OLD SQUABBLES. But there's a catch: the Health & Welfare Ministry requires that all foreign-made cosmetics bear seals identifying the importer. Jonan is not licensed to apply the seals, and he has drawn warnings from the Ministry for selling goods without them. The feisty 65-year-old vows to go to court before he stops selling the cosmetics.

Discounters are also going to the mat with manufacturers. Kawachiya Shuhan Co., a high-volume liquor store that tried its hand at discounting domestic cosmetics, got into a battle with Shiseido Co. last month. In response to Kawachiya's price-cutting, the cosmetic maker stopped shipping to the company. Kawachiya has appealed to the Fair Trade Commission, which is conducting an investigation.

The squabbling is old stuff to Yoshio Terada, the president of Step. He started off in 1979 with a shop that sold a brand of consumer electronics called National, made by Matsushita Electric Industrial Co. But when he tried lopping an extra 10% off the price of batteries, Matsushita protested. When Terada tried to argue, Matsushita ripped down the National sign out front. But he has given up on trying to win support from the Fair Trade Commission: "Those officials are thinking of getting high-paying jobs in industry after they leave the government."

Terada, a frequent traveler to the U.S. and an admirer of Kmart Corp., has ambitious plans for expanding his discounting operations. But there are still a lot of barriers to be breached. He would like help in the form of more saber-rattling by Japan's trading partners. Only when U.S. Commodore Matthew Perry trained his cannon on Japan in 1853, he notes, did Japan end its seclusion. "Just point your cannon this way, and people will respond," he says. Japan, it seems, still has a long way to go before it becomes a shopper's paradise.

By Larry Holyoke in Tokyo


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Detroit Edison excels in customer service with help from Digital.

"The powerful storms that sweep through Michigan each year can cause paralyzing blackouts in Detroit," according to Robert Buckler, Senior Vice President, Detroit Edison. "Past outages left thousands of concerned customers listening to busy signals when they called to report emergencies or ask about service. Our inability to respond to calls frustrated the public and jeopardized our reputation.

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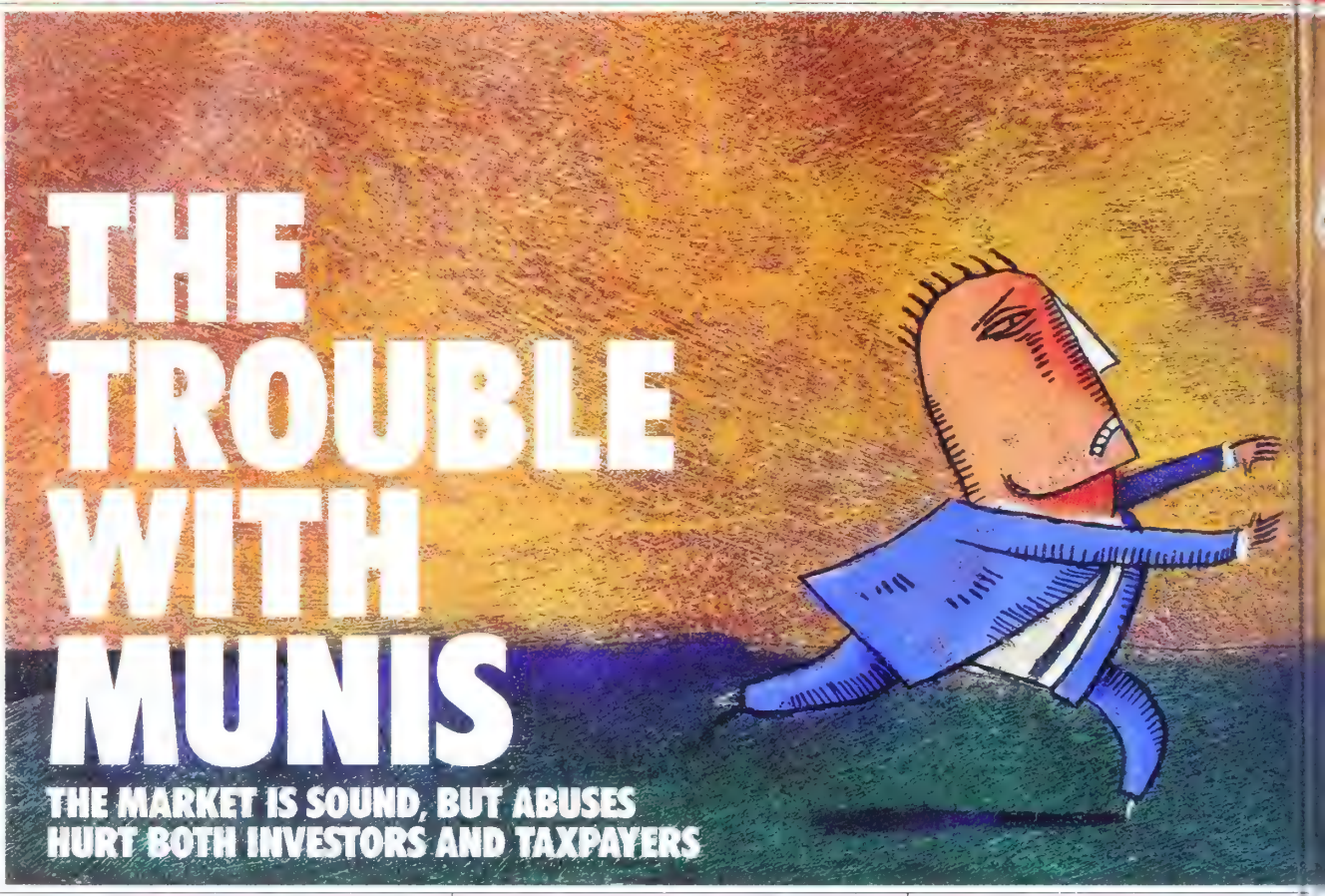


THE TROUBLE WITH MUNIS

THE MARKET IS SOUND, BUT ABUSES HURT BOTH INVESTORS AND TAXPAYERS

It was a routine deal, one of thousands that take place every year in the sprawling municipal-bond market. Last February, the state of Louisiana sold $604 million in general obligation munis to investors. The underwriting was co-managed by investment banks Lazard Frères & Co. and First Boston Corp.

But in an arrangement that some critics say has also become routine, there was a lucrative, hidden side deal. Lazard and First Boston sent half of their fees, $233,983, to First Commonwealth Securities, a New Orleans minority-owned firm, which was among the deal's underwriters. Despite the payment, First Commonwealth, which has just one employee, sold no bonds, says State Treasurer Mary L. Landrieu.

The explanation? In letters to Landrieu, First Boston and Lazard say they were told by state officials that they had to give First Commonwealth 50% of their fees to win the job, ostensibly to allow the state to fulfill affirmative-action goals. But the U. S. Attorney's Office in Baton Rouge is investigating whether members of the state's Bond Commission, which chooses underwriters, may have selected First Commonwealth for political reasons. "Why would any firm give away 50% of their fees unless they felt politically held hostage?" says Treasurer Landrieu. "This kind of business deal costs the state of Louisiana hundreds of thousands of dollars."

A spokesman for First Commonwealth, President Norbert A. Simmons, insists such a fee-splitting arrangement is not unusual and that the firm did sell some bonds. First Boston and Lazard declined BUSINESS WEEK's request for further comment.

Beyond New Orleans' newspapers, the Louisiana deal received little notice. Yet a perusal of the media in other cities and many smaller communities over the past year or so shows dozens of other questionable muni dealings: how city officials pressed investment bankers for campaign contributions in return for appointments as muni underwriters; how investment bankers, hired to be objective advisers to municipalities, had secret back-scratching arrangements with underwriters.

A thorough reader would also come across reports of other apparent muni abuses and questionable practices: how investment bankers sold exorbitantly priced investment services such as swaps to unsophisticated city treasurers; how muni investors, after receiving only sketchy information on their issues, lost thousands of dollars when the bonds abruptly went into default.

Cumulatively, such episodes raise serious questions about the integrity of the $1.2 trillion muni market. "As volume and trading have increased, the problems and abuses have increased," says Securities & Exchange Commissioner Richard Y. Roberts. "The danger is ultimately that the muni securities marketplace may not be viewed as fair, sound, and conservative." Congressional hearings scheduled for September will focus on several reform proposals.

BOOM TIMES. Yet to many people, the muni market has never looked more inviting. Munis enjoy an overall record as very safe investments. The default rate for rated muni bonds is extremely low, with most defaults limited to risky unrated bonds. Munis' tax-exempt status is a growing lure, because of higher income tax rates mandated by the Clinton budget. And the muni market, once viewed as about as law-abiding as a 19th century frontier town, has cleaned up its act somewhat in the last few decades. In 1975, the Municipal Securities Rulemaking Board, a self-regulatory organization for underwriters, was established. The Tax Reform Act of 1986, which capped the value of revenue bonds states could issue, helped reduce the number of riskier marginal issues.

A number of experts argue that abuses in the market are small and scattered. "Something like $250 billio

unicipal bonds will be sold this year, d if the market were a mess, that ouldn't be happening. The market is brant, and it's growing," says Leo C. Neill, president of rating agency Stanrd & Poor's Corp., a division of Mcaw-Hill Inc., which publishes BUSINESS EEK. Indeed, new muni bonds are beg issued at a breakneck pace to fince the building of schools, highways, d hospitals and to refinance old- issues at today's low rates. To ates and cities all over the coun-y, the market has never been ore important.

Other evidence, though, sugsts that questionable dealings the muni market may be more despread than is commonly beved. Over the past few months, ports of abuses have aroused owing concerns. Some congressen are organizing probes, and few states are discussing reforms. The threat of tough new gulation from Washington lped prod the MSRB on Aug. 4 propose disclosure rules on poical contributions by bond derwriters. But wholesale reform will not be easy. "The vested erests will fight tooth and nail keep the status quo," says chard Lehmann, president of the Bond Investors Assn. in Miami Lakes, Fla., which monitors defaulted bonds.

The main reason the wrongdoing has received so little national attention and caused so little outcry derives from the market's localized character. The market consists of 1.5 million issues sold by as many as 50,000 municipal entities—many, many times more than the issues listed on all the U. S. stock exchanges. In the muni world, the bad guys are not high-profile villains such as Michael Milken and Ivan Boesky but typically small-time city comptrollers who tap their investment bankers and bond counsels for campaign contributions in exchange for roles in muni-bond issues.

INVISIBILITY. Despite its reach into many of the smallest communities, the muni market in many ways is invisible (page 55). Getting a price quotation almost always involves calling a broker. Only a handful of the most actively traded muni bonds' prices are listed in the newspaper, while the vast majority of prices go unpublished. "There's a whole infrastructure that isn't there," says James J. Cooner, the Bank of New York's head of tax-exempt bonds. The price of the same bond can range widely among dealers. "No one knows exactly what their bonds are worth," says Zane B. Mann, publisher of *California Municipal Bond Advisor*.

In some cases, overly aggressive brokers have grossly overcharged investors. In one typical arbitration decision in March, 1991, a Chicago investor, John Otto, won $30,000 from Evans

THE MOST GRIEVOUS PROBLEMS VEXING THE MARKET

POLITICAL INFLUENCE State and local politicians are often too close to investment bankers, lawyers, and others who help underwrite their muni bonds. Business is sometimes awarded on the basis of campaign contributions and other favors, not merit.

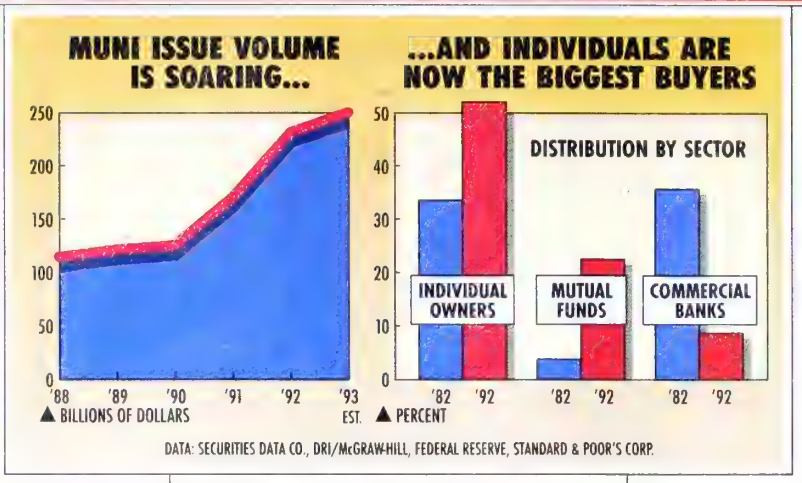
INSUFFICIENT DISCLOSURE Investors often can't get even basic information about the health and operations of muni issuers.

POOR PRICING Since the muni market has no central price-setting mechanism, there are almost no publicly posted prices for muni bonds. Quotes from brokers can vary widely.

LAX REGULATION Muni issuers are not subject to federal regulation. The sole regulatory body is governed by industry volunteers and defers to the NASD on enforcement.

DATA: BUSINESS WEEK

Trading Co. for selling munis to Otto at prices that were "significantly higher than the prevailing market." Neither Otto nor Evans could be reached for comment. Says New York attorney Bruce S. Schaeffer: "The reason why so much fraud goes on is because commissions aren't disclosed on confirmations or brokerage statements." He adds that "bad brokers that overcharge aren't disclosed," since many muni disputes are resolved through out-of-court settlements that require the customer to keep the dispute secret.



UNEVEN DISCLOSURE. The abuses mostly affect not sophisticated institutions but individuals, the largest muni holders. Both directly and through muni-bond mutual funds, small investors own a record 74.4% of muni issues, up from 37.3% a decade ago.

Disclosure about muni issuers' financial condition is very uneven. Unlike corporations, state and local bond issuers are exempt from the Securities & Exchange Commission's registration and reporting requirements. There are voluntary guidelines, but while many large, frequent issuers lavish information on bondholders, small, infrequent issuers can go for years without releasing data. Says Jerry Webman, who oversees $13 billion in muni investments for Prudential Insurance Co.: "It's a big problem. The lack of information makes the market riskier."

Regulation of the market ranges from cursory to nonexistent. By law, muni issuers—and their lawyers and independent financial advisers—are exempt from federal oversight except in cases of serious fraud. The MSRB, the market's main overseer, is governed by a board of industry volunteers and relies for enforcement authority on the National Association of Securities Dealers, which regulates broker-dealers. The MSRB is prohibited from regulating issuers. "Issuers have total discretion," says Ed McCool, executive director of the New Jersey division of Common Cause. "There is no public accountability. It's a situation custom-made for abuse."

A kind of conspiracy of silence about malfeasance reigns in the muni market because so many powerful groups benefit from the market's current structure. Its few critics tend to be academics and officials from watchdog groups. Politicians are happy with the lush flow of campaign contributions. Executives at Wall Street firms, while fed up with local officials extending their palms, keep playing the game to get business. Muni dealers can reap handsome profits from the market's inefficiencies.

At the heart of some of the muni market's worst troubles is the extent to which it is pervaded by politics. Campaign costs are rising, creating incentives for politicians to look to well-heeled bankers and lawyers for contributions. Too often, public officials dole out bond business on the basis of financial favors, not merit. "Each municipality is paying a little extra over the life of the bond to make up for political contributions," says Robert B. Lamb, professor of finance at New York University's Stern School of Business. "The taxpayers are the ones who ultimately have to pay."

Washington's interest in reform got a boost last spring from publicity about a cozy arrangement between Wall Street firms and New Jersey Governor James J. Florio's chief of staff, Joseph C. Salema. The U. S. Attorney for New York's Southern District is investigating whether Merrill Lynch & Co. bestowed financial favors on Armacon Securities, a tiny Clementon (N. J.) brokerage part-owned by Salema, to secure $2.9 billion in state bond business, confirms Merrill and Armacon attorney Thomas Puccio. Despite almost nonexistent capital, sales staff, and customers, Armacon was part of the underwriting syndicate for state issues. Merrill denies any criminal misconduct by its employees. Salema also denies wrongdoing, saying his Armacon holdings were in a blind trust after he joined the governor's staff. He resigned his state position in May.

Numerous other questionable situations have recently come to light. New York City Comptroller Elizabeth Holtzman has come under fire for allegedly giving underwriting business to Fleet Bank's securities unit in exchange for a $450,000 loan to her U. S. Senate campaign fund last fall. Several months later, her office recommended Fleet as a underwriter of ci bonds. Last May, th city removed the Fle unit as a bond unde writer. Holtzman sa she was unaware th her staff had selecte Fleet as underwriter A Fleet spokesman sa the terms of the lo "met all our cred underwriting standard

Politicians solicit co tributions even mo boldly in Illinois' Co County, which includ Chicago. Last September, just as a $2 million Cook County bond issue w about to hit the market, underwrite and attorneys on the deal got a me sage from County Board President Ric ard J. Phelan's chief fund-raiser: Po up, please. On stationery emblazon with "Citizens for Phelan," a Democra fund-raising committee, Mary Beth So

'YOU SORT OF FEEL LIKE YOU'VE BEEN HAD'

To officials of the Pontiac (Mich.) district in 1991, selling $36 mil deferred-interest bonds seeme a painless way to borrow. Issuing the would let the district delay paying i for years, avoiding a politically painf rate hike.

Now, though, the deal looks a l terrific. The unusual provisions of the mean that interest costs will be mor twice what they would have been wi ventional borrowing, and the distr legedly ended up taking on more deb it needed. The district is suing its adviser, Detroit-based law firm Mille field, Paddock & Stone, which, knownst to the district, also worke time for Kemper Securities Grou which underwrote the bond issue.

Pontiac's woes illustrate what wrong when officials with limited standing of muni finance enter into u dox, complex borrowings. They ma too heavily on their lawyers and writers, leaving themselves vulner what could later be viewed as poor and conflicts of interest. "We ended ing something that was entirely di from what we thought we'd do in t ginning," says the district's financial er, Ronald G. Erickson. "You sort

elan's chief fund-raiser, asked bond visers for $1,500 contributions to three elan political allies. It's not clear how ich money the solicitation, which rred a brief press uproar, brought in. elan did not return calls on this sub- t. Sova says she was merely sending etter to those firms that had already pressed interest in giving.

OU HAVE TO GIVE." Citizens for Phe-, though, has already collected over 0,000 from bond professionals who rk on Cook County deals, including ,500 from Goldman, Sachs & Co. and employees. That's almost 25% of Phe- 's entire $1.75 million campaign war st, according to a study by dissident unty Commissioner Maria Pappas. s a quid pro quo," she says. "You e to me, and I'll give to you." Adds head of one firm that handles coun- business: "If you want to be involved a bond deal in Cook County, you have give money to the politicians." Gold- n Sachs denies any quid pro quo. It firms that it gave $9,500 but won't nment on employees' contributions. Lawyers are also players in political ds. Last April, an investment banker received a letter from a Lansing (Mich.) law firm, Dykema Gossett, that often works as the state's bond counsel. The pitch, on the law firm's stationery, was for $100 donations to Republican Governor John Engler's "Governor's Club," to cover Engler's office expenses. "I have enclosed 25 membership forms and would appreciate your assistance in encouraging individuals in your office to join," wrote an attorney at the firm.

James P. Kiefer, the Dykema Gossett attorney, says his letter was a "personal voluntary effort" that had nothing to do with his firm. Engler spokesman John Truscott says the $200,000 to $300,000 the club raises annually from many firms saves taxpayers money by covering expenses that the state might otherwise have had to pay for. "Anybody who knows John Engler knows there is no quid pro quo," Truscott adds.

No one knows the cost to taxpayers from such arrangements. Although the SEC is trying to gather data, it's difficult to figure out how much muni-bond underwriters give to state and local officials. But in the 1991-92 election cycle, the top 12 municipal-bond underwriting firms' political action committees alone contributed as much as $2.3 million to state and local politicians, estimates *Political Finance & Lobby Reporter*, a Washington newsletter. That doesn't include contributions by individuals at those firms, which is believed to be an even larger honey pot.

Regulation of the market ranges from cursory to nonexistent

Taxpayers may take another hit when securities firms that work as advisers to muni issuers also serve as underwriters or have links to them. Such an arrangement can give the securities firm an incentive to recommend excessively costly or unnecessary services. Research by Securities Data Co. shows that financial advisers have simultaneously act-

THE HIDDEN CLIENT

A Michigan school district learns that its lawyers serve two masters

PETER YATES SABA

've been had." ac school offi- nted to tap the arket to raise o cover the dis- budget deficit ious operating ut they worried e debt service rce Pontiac to e property-tax e solution: de- nterest bonds, own as capital tion bonds, or ike zero-coupon es, CABs are is- a discount to ce value, and payments are deferred for years. of Michigan school districts have ABs in recent years, often using and Miller Canfield.

EBT. At first, Pontiac's bond issue ike a success. School renovations ler way, and voters avoided a tax rate. But by the spring of strict officials started to appre- e CABs' long-term cost. While a nal fixed-rate bond incurs the terest costs every year, a zero- bond entails rising, albeit de- interest costs. The interest, in effectively compounded. Pontiac d less than $36 million with CABs, oday's dollars, the district's total ts on those bonds will exceed llion, says Dennis R. Pollard, the attorney. What's more, Erickson says, partly because Miller Canfield attorneys allegedly told district officials they would receive extra state aid if they issued certain other bonds in addition to the CABs, the officials decided to borrow millions more than originally planned.

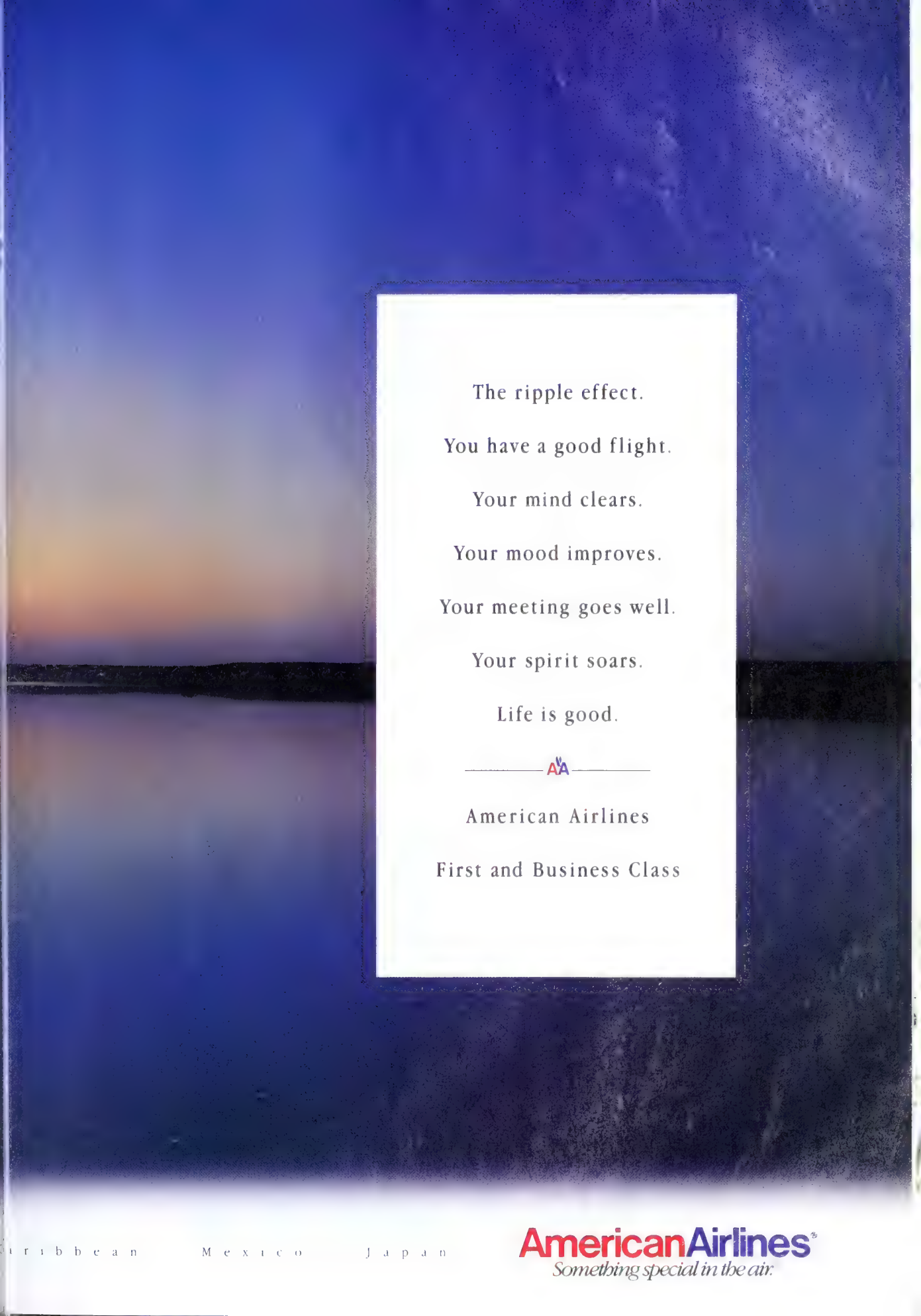
In July, 1992, the district sued Miller Canfield, claiming it relied on the firm's advice when planning its borrowing. And it alleged that, when it was working for Kemper and the district simultaneously, Miller Canfield didn't adequately warn district officials about drawbacks in its borrowing strategy. Says Pollard, "If they had an undivided loyalty to their client, we maintain they would have told us the pluses and minuses." He maintained in *The Bond Buyer* last fall that "the interests of Kemper prevailed over the interests of Pontiac schools."

Joel L. Piell, chairman of the public law department at Miller Canfield, concedes his firm did not disclose the link to Kemper to the district, which "should have been done." However, he says, "we did not act in any way which was conflicting with the school district." George T. Stevenson, the Miller Canfield attorney who worked on the deal, said in a deposition for the suit that advising on financial considerations is "primarily the responsibility of the financial adviser."

Richard Allen, the Kemper senior vice-president who worked with Pontiac, says it's common for a law firm to work for both issuer and underwriter to save costs. From the Pontiac school district's standpoint, that would seem to have been a false economy.

By Kelley Holland in New York

United States Europe Latin America Canada


The ripple effect.
You have a good flight.
Your mind clears.
Your mood improves.
Your meeting goes well.
Your spirit soars.
Life is good.
American Airlines
First and Business Class
Caribbean
Mexico
Japan
AmericanAirlines
Something special in the air.

ed as underwriters on 265 muni deals already this year. Having one firm serve dual roles creates a huge conflict of interest, says F. John White, chief executive officer of Public Financial Management Inc., a Philadelphia advisory firm. "We take the position that it's hard to be in both businesses, let alone do both things on the same deal," he argues. Some interlocking relationships go further. One case involved Mark S. Ferber, who for several years acted as adviser and banker to the Massachusetts Water Resources Authority. He was dismissed by the authority in July under a cloud of conflict-of-interest allegations.

Lawyers and securities firms often dazzle small municipalities with exotic—and expensive—financial strategies used by larger issuers that unsophisticated officials may not fully understand. "There's a herd mentality about new structures," says Allen Proctor, executive director of the New York City Financial Control Board. In Michigan, for example, dozens of school districts have issued deferred-interest bonds whose final cost will likely far exceed what the tab would have been for conventional bonds (page 46). One of the school districts was advised by a law firm that, unbeknownst to the district, worked for both the district and its underwriter.

Many municipalities get burned by venturing into swaps—contracts designed to help municipalities guard against changing interest rates. Consider the Pittsburgh Parking Authority, which sold a $62.1 million bond issue in June, 1989. It then entered into an interest-rate swap agreement with Merrill Lynch for a hefty $4.7 million fee. A study by Lehman Brothers concluded that the PPA's swap could cost as much as $812,000 rather than saving the authority $809,000 as Merrill had predicted. Merrill disputed the Lehman study. After the PPA threatened legal action, the dispute was resolved to both parties' "mutual satisfaction," says Merrill. Marion Wise, the PPA's current finance director, says the PPA "just got in way over their heads."

HIDDEN RISKS. Although taxpayers pick up much of the tab for muni abuses, investors also suffer painful hits. To be sure, except for the inevitable risks from interest-rate movements, owning rated muni bonds is relatively safe. In dollar value, about 90% of the $157 billion in munis issued in 1991 were rated by at least one of the major rating agencies.

But owning unrated muni bonds, which make up nearly one-third of the total number of bonds in the market in 1991, can be risky. Investors often don't realize that higher yields on unrated muni bonds mean they are taking more credit, or default, risk. Muni insurance protect buyers of many large issues against default, but some 60% of all muni issues—including many rated as well as unrated—are not insured. "It's a real quagmire. Investors are not informed. When they hear of a muni bond with a good coupon, and it's tax-free, they don't understand the risks," says Dr. George Massell, 70, of Seabright, N. J., who lost $130,000 when unrated bonds issued by two nursing homes defaulted.

The default rate for unrated bonds is a controversial issue. Muni-bond information and brokerage firm J. J. Kenny Co., a part of S&P, says 1.93% of unrated munis defaulted from 1980 to 1991. The Bond Investors Assn. pegs it at a much high 7% for a similar period. Whatever the default rate, tax-exempt health-care bonds figure prominently, making up 76% of all nonrated bond defaults, says J. J. Kenny. In Florida, $20 million in unrated health-care bonds went sour about one year after the offering, leaving investors with big losses and sparking lawsuits alleging fraud and poor disclosure (page 54).

Similar charges surrounded $21 million in unrated bonds issued by Patriot

THE INVESTMENT BANKER WHO PLAYED BY HIS OWN RULES

In the world of public finance, Mark S. Ferber enjoyed an ostensibly enviable position. He was financial adviser to a Massachusetts water authority, the state of Michigan, and the city of Washington, all of which relied on him to help choose which firms would underwrite muni-bond issues. At the same time, Ferber was an investment banker, most recently for First Albany Corp., which underwrites muni issues. He was previously employed at Lazard Frères & Co., where he entered into a fee-splitting contract with Merrill Lynch & Co. Lazard and Merrill are also muni underwriters.

Over the past several months, these tangled relationships have caused big trouble. In July, the Massachusetts Water Resources Authority fired Ferber, First Albany, and Merrill Lynch because their relationships, says MWRA Executive Director Douglas B. MacDonald, "created the appearance of a conflict" and "compromised the integrity of our bonds." A week later, First Albany fired Ferber, says the firm. Officials in Michigan and Washington haven't expressed concerns about similar conflict-of-interest issues, and Ferber no longer works for either.

Ferber did nothing illegal by acting as a financial adviser while working for securities firms. His clients evens advice saved them mon his story shows how in lightly regulated world of finance, it's easy for inves bankers to play by their rules. Securities & Exch Commissioner Richard C erts says Ferber's activi olate everything that a cial adviser is suppose about: impartiality, objec third-party advice."

Ferber denies any wr ing. About the fee-splitting tract with Merrill, h "The contract, as revis the time by Lazard's le counsel and as drafte major New York law f not violate any laws, re tions, ethical standards or ciary duties owed by th any other financial a Lazard's comment: "Th

MULTIPLE ROLES

Mark Ferber advised municipalities while splitting fees with underwriters and raising funds for pols

int Development thority to finance a el and marina de- opment in Charles- , S. C. In August, 8, the half-finished ject stopped mak- interest payments. report by state au- r Edgar A. Vaughn nd "little evidence accurate projections, rly documented tractual arrange- nts... and a general k of any strong, t-conscious over- ht." The authority l other parties re- tly settled a bond- ders' suit alleging fficient disclosure hout admitting lia- ty. A Patriots Point estment banker ned in the suit was n Reardon, the son- aw of Senator Ernest F. Hollings (D- .), who, along with Senator Strom rmond and other politicians, appoints authority's members. Says Lawrence Fox, an attorney for Reardon's in- tment bank, J. B. Hanauer & Co.: e think the authority should have e forward and completed the pro-

Cook County Board President Richard Phelan, center: His campaign collected over $400,000 from bond professionals who work on county deals

ject and paid the bondholders." A Hollings spokesman says there is no connection between his family tie to Reardon and Hanauer's selection as Patriots Point's underwriter.

Momentum is building to clean up the muni market. States including New Jersey and Florida are implementing reforms. Although many state and local politicians defend the current system and are trying to prevent any federal regulation, some useful reforms can be made without unduly diminishing states' independence. Measures might include stiffer disclosure requirements for issuers and a ban on campaign contributions from firms involved in muni deals.

Politicians and muni-industry partisans who argue that much of the muni market is free of abuse have a point. Yet the evidence suggests there are still far too many illicit or unseemly practices. If allowed to persist, these problems could irreparably damage the vitality of a market that has become central to the health of the U. S. financial system.

By Leah Nathans Spiro and Kelley Holland, with Larry Light in New York, David Greising in Chicago, and Michael Schroeder in Washington

learly envisioned disclosure to Mr. 's clients." Lazard says that "he d us that he did so."

er began his career as budget di- for the Massachusetts Senate's & Means Committee in 1979. In e jumped to Kidder, Peabody & a muni-bond specialist. Boston Flynn appointed Ferber head of a al task force and rewarded him plum: Kidder was named the senior bond underwriter. Ferber n to become the state's most pow- vestment banker. In 1985, he be- he financial adviser to the MWRA, muni issuer. He helped choose vriters for $3 billion in munis to p Boston harbor.

er was also an intrepid fund-rais- politicians who hired him for bond One investment banker remem- 'erber arranging for the banker et with Boston's mayor at the Raymond L. Flynn. Just before eting, Ferber asked the banker 3,000 contribution for Flynn.

to Ferber's multiple roles, invest- ankers sometimes found it diffi- resist his fund-raising entreat- ys one irate banker: "You had to to Ferber or he's going to ding cause you didn't help his client." Vayne A. Budd, Ferber's attorney: "Mark Ferber never stated or implied, directly or indirectly, that the failure to contribute to a candidate of his choice would have any adverse consequences of any kind."

Ferber's troubles began in early July, when the MWRA learned details about his contract with Merrill Lynch, then one of the agency's senior underwriters. Under the contract, Ferber was compensated for selling swap contracts, which can cut interest costs, to municipal officials. Between June, 1990, and January, 1993, Ferber received $2.8 million from Merrill, says the MWRA's McDonald. Ferber, he says, disclosed his Merrill relationship, but not his compensation. "When you're whispering in our ear as our fiduciary, you can't go sign a secret treaty," says McDonald. Merrill insists the contract was "proper, ethical, and legal." First Albany declined comment. The Massachusetts inspector general is investigating Ferber's MWRA dealings.

ON HOLD. Ferber was treated more kindly by officials in Washington. While at Lazard, he served as the co-financial adviser to the city in 1991 and 1992. He recommended that the city do two swap deals with Merrill, says Ellen M. O'Connor, Washington's deputy mayor for finance. O'Connor says Ferber told her that he had "some arrangement with Merrill," but Ferber didn't tell her about his compensation. Does O'Connor view Ferber's Merrill relationship as a conflict of interest? "I don't know enough about the financial markets to make a statement about that," she replies. O'Connor and Merrill say they didn't pay Ferber any extra fees for swaps.

In Michigan, Ferber was a financial adviser from August 1, 1991, until July 31, 1992. During that time, the state hired Merrill as senior underwriter on one $540 million bond issue, according to Securities Data Co., but didn't use Merrill for swaps. According to Ferber's attorney and Merrill, Ferber told state officials that he had an "economic relationship" with Merrill but gave no specifics because the deal was "a private contract between private business parties."

Asked about a possible conflict between Ferber and Michigan, State Treasurer Douglas B. Roberts declined to comment. He says that while he was satisfied with Ferber's performance, Ferber and First Albany are no longer under contract with Michigan.

For now, Ferber's career is on hold. His next major role may be on Capitol Hill: testifying this fall before congressional hearings on the muni market.

By Geoffrey Smith in Boston, with Leah Nathans Spiro in New York

MARC POKEMPNER

May we suggest the fish on the right.

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strategy, technology, process
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ıat's consumed quickly, we
fer organizations the means to keep changing and improving.

As they say, give a man a fish and he'll eat for a day. Teach a man to fish and he can afford a good wine to go with it.

ANDERSEN CONSULTING

BY ANY OTHER NAME, A SHELL GAME

William C. Ayres remembers all too well the call he received in early 1991 from a broker with Rickel & Associates Inc. in Millburn, N.J. The broker was hyping a hefty 10.5% coupon rate on some bonds for Florida retirement homes—a full point higher than the rates on similar tax-free bonds. Ayres, a retired Air Force fighter pilot, checked out the bonds' official statement (in effect the prospectus for a muni bond) and studied some additional financial information. The bonds seemed worth the risk, so he sprang for $250,000 worth. Today, his securities are worthless, and Ayres is livid. "I've learned that if it sounds too good to be true, it probably is," he says. "I got lied to" by the home operators.

"Caveat emptor" should have been stamped on the bonds. The official statement said that the securities carried a high degree of risk and outlined numerous factors that could reduce the profitability of the retirement homes that were backing them. Although issued by the city of North Miami, they were backed only by revenues from the retirement homes. Beyond that, the bonds had not been rated by a credit agency.

RED FLAGS. But the risks may have extended further, perhaps even involving fraud. Four mutual funds run by Allstate Insurance, Dreyfus, and Merrill Lynch, which were also investors, have sued many of those involved in the deal, though not the city of North Miami, alleging that the homes were poorly managed and that their financial condition was concealed. Scott L. Warfman, a lawyer for the retirement-home operator, Meadowcroft Management Group, replies that allegations of fraud "are completely untrue."

Most revenue bonds, secured by such facilities as toll roads, perform without a hitch. But this deal had red flags from the start. The sad saga began in 1987, when, along with other investors, Meadowcroft—a Toronto nursing-home developer headed by George Kuhl—started buying three Miami-area retirement centers for a total of $5.8 million. Warfman says his client spent an additional $6 million on renovations—a claim bondholders disputed. By 1990, though, the retirement homes, which still needed major improvements, were making little if any profit.

CREDIT CRUNCH? Warfman says Kuhl decided to sell "because he was not happy with the project." Bondholders allege, and Warfman denies, that Kuhl's group needed money fast because of pressure from Royal Bank of Canada to repay loans. The bank declined to comment.

The best way to cash out, Kuhl figured, was the municipal-bond market. Armed with audits, appraisals, and other expert opinions, he persuaded the North Miami Health Facilities Authority, a city agency, to help sponsor bond issues totaling $20 million. Says David M. Wolpin, North Miami's attorney: "Our interest was in seeing [the retirement homes] continue as a resource in the area."

The arithmetic did not make much sense. Annual interest payments on the bonds would start at $1.7 million and would rise in subsequent years—but during the three years that Meadowcroft had operated the three facilities, they had never generated more than $380,000 in annual operating income. And the retirement hom were on average half empty, accordi to the offering document.

But Kuhl's group argued that could increase occupancy to 95% wit in 18 months—all the while chargi patients top dollar. And the bon were issued on Aug. 31, 1990, by t North Miami authority, which did n have any financial risk. Kuhl's gro netted $12.3 million from the proceed But Meadowcroft wanted an addition $4 million. So the underwriter, V Kampen Merritt Inc. in Philadelphia, sued subordinated bonds with a fa value of $4 million and gave them Meadowcroft.

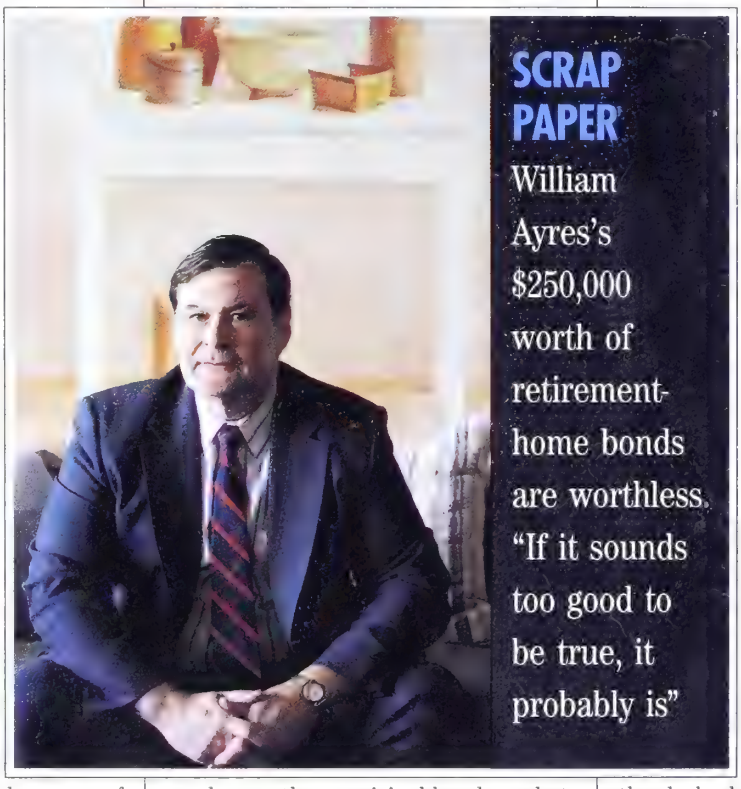
Instead of holding t bonds, as the city a bond funds expecte Kuhl's group unload them at a deep discou for about $1.6 million Rickel & Associates. early 1991, Rickel's br kers had resold the bon to the 19 individuals at 25% profit.

GRIM SMILES. The bon holders' suits allege th Kuhl's group knew t homes had little likeliho of succeeding. "The hom were already crumblin physically and financial by the fall of 1990," alle es J. Michael Rediker, t individual bondholders' a torney. Warfman deni the charge, though concedes "some marketi problems" existed. Sin issuers are not require to disclose informati once bonds have been sued, investors were the dark about the performance of t retirement homes.

The bonds defaulted in Octobe 1991—little more than a year after th were issued—and a bank trustee b gan liquidating in May, 1992. The bo mutual funds will be lucky to get 2 on the dollar. But the subordinate bonds are worth zero.

Not everyone has been a loser. dozen lawyers, underwriters, and ot er financial advisers pocketed close $2 million in fees, according to Wa man. He maintains, though, that Kuh investment group lost $1.5 million. so, it may be the only thing about th deal to make investors happy.

By Michael Schroeder in Washingt



SCRAP PAPER William Ayres's $250,000 worth of retirement-home bonds are worthless. "If it sounds too good to be true, it probably is"

IUNIS 101: ASIC SELF-DEFENSE

n in a rough-and-tumble arena, homework will pay off

One bank executive calls it "a cross between an oriental bazaar and a Charlie Chaplin movie." Other market watchers just shake their heads and mutter about chaos. "It" is the system for trading municipal bonds—the Wall Street equivalent of a huge used-car lot.

nlike the New York Stock Exchange, re 2,089 common stocks are listed, NASDAQ, where about 0 issues trade, there is central marketplace for ling the 1.5 million dif- nt municipal bond is- s, only a fraction of ch get regular coverage ne press.

/hile some newspapers the most actively traded ois, most smaller, ob- e issues get little no- and the average inves- cannot track prices y—or even weekly. For individual investor, re is no data base, no ngs, no computer pro- ns," says James J. Coon- senior vice-president in ge of tax-exempt secur- for Bank of New York. e brokers and dealers as principals, buying and ng from their own in- tory, Cooner compares muni market to the col- bles market, where pric- is highly subjective. In- duals may take a ting when selling into market, since the mark- nd costs passed along by a broker be sky-high for trades of fewer than bonds or less than $100,000 in face e. It's difficult to know what markup nvestor is paying, since all costs are ked into the bid or offer price.

he muni market plays by its own s. While many investors assume that broker's bid or offering price on a d will be much like another's, that's how it works. John F. Martin of Biscayne, Fla., a longtime investor in munis, says he has seen a difference of as much as $45 to $50 per $1,000 on the same bond issue. "The ones bidding aggressively were specialists in that bond and knew they had customers that they could sell it to," says Martin. "The others figured they would just have to sell it to another bond house, and they had to be able to sell it cheaply enough." Says Robert B. Lamb, a professor of finance and management at New York University's Stern School of Business: "The unknowing investor just accepts the first price they're given." Savvy investors often ask their brokers to put a bond "out for bid." The broker then has a dealer canvass others for the best bid.

Pricing is most uniform for large issues, such as state and city bonds or bonds of major municipal authorities, simply because those markets are more liquid—there are more buyers and sellers. But with smaller issues, getting a sense for how liquid the market is can be tough. Looking at *The Blue List*, a compilation of dealers' offering prices, may a give clue. "If there are very few offerings on a bond, that tells you something" about trading volume, says John Markese, president of the American Association of Individual Investors.

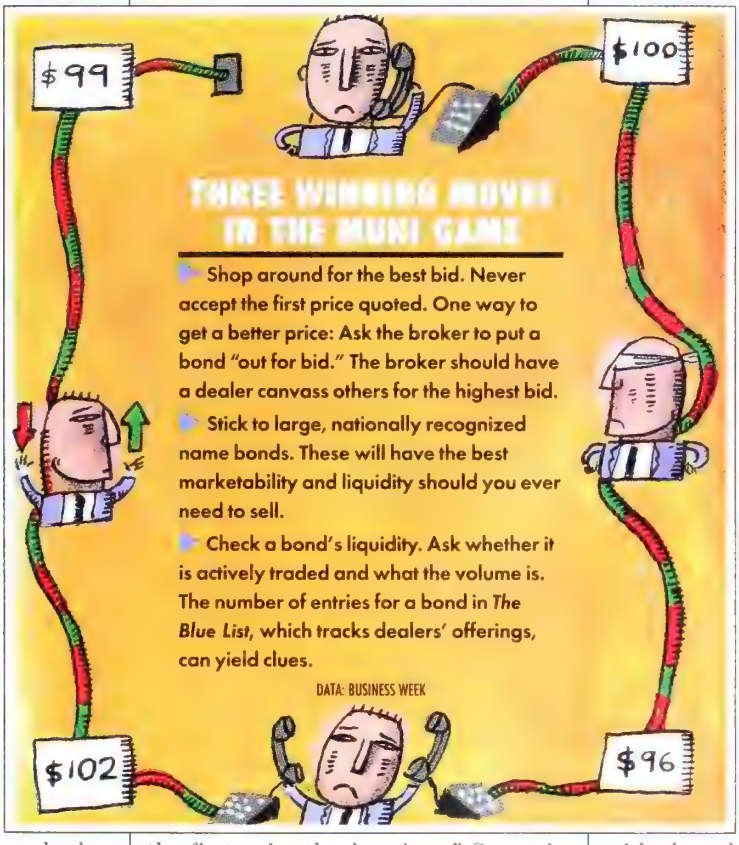
A look at complaints to industry arbitration panels shows that the pitfalls for muni investors echo those in other markets. The three most common claims, according to Wilson White, author of *The Municipal Bond Investment Advisor*: Brokers misrepresented or omitted material facts about a bond; investors were sold a bond not suitable for them; and brokers churned the investors' accounts.

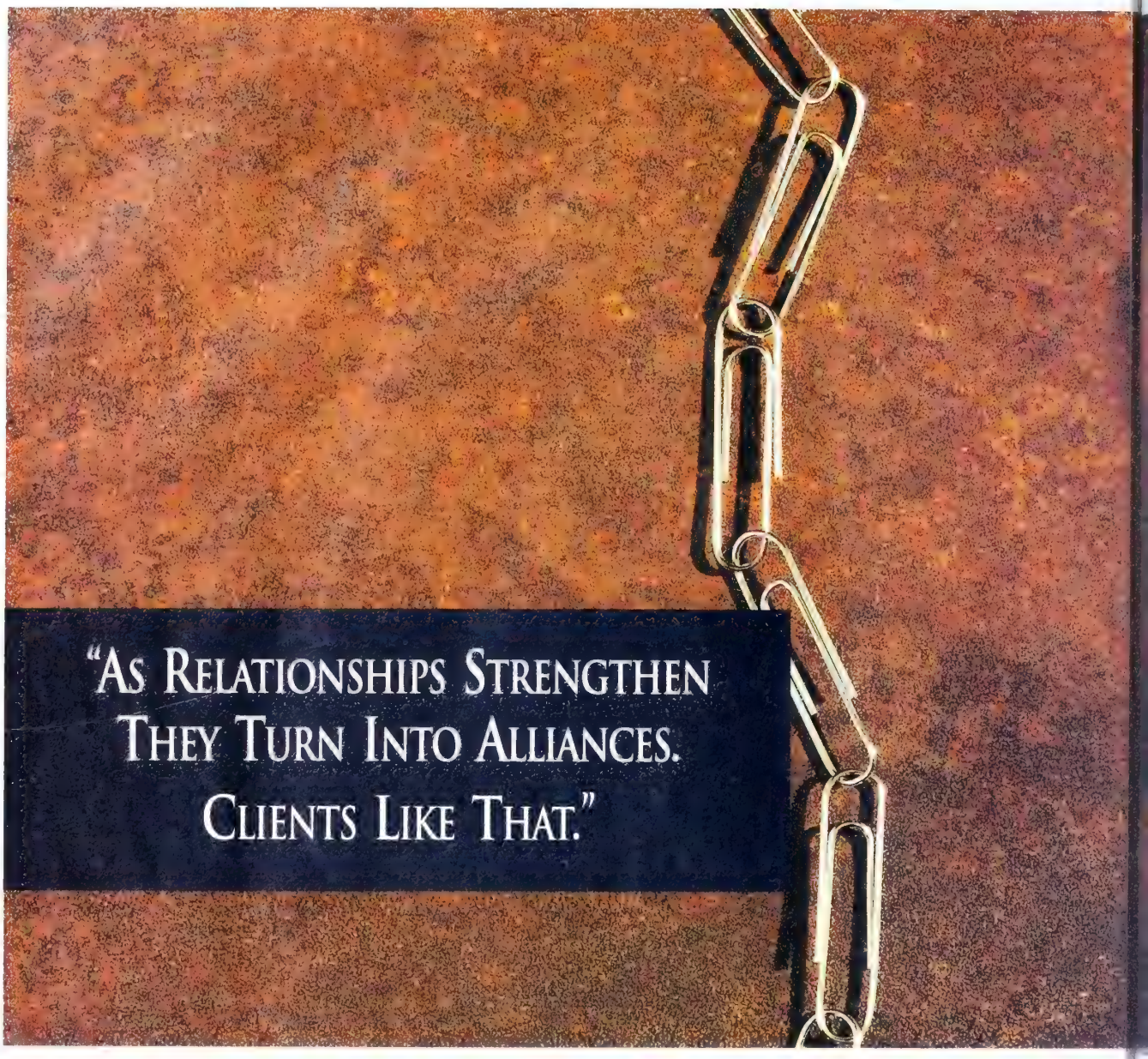
NOT IN KANSAS. Many arbitrations center around investors not being informed of a bond's call features. New York securities attorney Roger Deitz notes that in 1990, he paid $7,673 for $100,000 worth of 25-year zero-coupon Saline County (Kan.) single-family mortgage revenue bonds. The bonds offered a yield to maturity of 10.24% until the year 2015, making them perfect for the trust that Deitz was handling. "My objective was to lock in the current interest rate and have it compound for 25 years," he says. But in December, 1992, $50,000 of the principal amount of the bond was called.

Deitz, who represents customers in securities arbitration, knew that any call feature should be noted on the face of the confirmation slip from the brokerage house. But the face of his confirmation slip had no mention of a call feature. Eventually, after the brokerage firm said it couldn't be done, Deitz found a bond that would re-create much the same position that he was aiming for with the original bond. After Deitz handed over funds from the called bonds, along with the other bonds from the original investment, his brokerage firm agreed to kick in the extra money needed to replace his position with a similar bond.

For the uninitiated, buying and selling municipal bonds is often a daunting prospect. Pressure for greater price disclosure is rising, but not too much has happened yet. For individual investors, the secondary market is a classic case of buyer beware.

By Suzanne Woolley in New York





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ALL THE NEWS THAT ENRICHES

Michael Bloomberg's news empire is growing—maybe too fast

Ask Matthew Winkler to name his journalistic model, and he doesn't hesitate: Joseph Pulitzer's *New York World*. "It went where newspapers had never gone before," says Winkler. "It embraced the 20th century in an exciting way." As editor of Bloomberg Business News, Winkler has a similarly lofty goal. He wants his news service to be a prototype for the electronic news company of the 21st century.

To succeed, though, Winkler will need another Joe Pulitzer. And his boss would seem an improbable choice. Michael Bloomberg makes his money by leasing a desktop machine through which he distributes financial data to Wall Street traders, bankers, and analysts. Everything this onetime equity trader says or does is calculated to lease more of them. "I'd love to win Pulitzer prizes," says Bloomberg, who owns about 65% of the news service and its parent, Bloomberg Limited Partners. "But the short-term way of measuring success is how many terminals we sell."

BIG PUSH. So why is Winkler even embarking on such a crusade? Because Bloomberg believes that becoming a media potentate will boost sales of his terminals. Journalists might find that a prosaic motive. But Bloomberg has allowed Winkler to assemble the most ambitious worldwide news organization since CNN. In little more than three years, Winkler, a scrappy former reporter for *The Wall Street Journal*, has hired 170 reporters and editors to staff 39 news bureaus from Tokyo to New York to London.

What's more, the news service is only one of several new media ventures. Last year, Bloomberg bought a New York radio station, which he converted to a 24-hour all-news format. He also built a small TV studio in his bustling Manhattan newsroom to tape interviews with corporate chieftains. He is outfitting his terminals so they can show photos taken from the interviews and play snippets from the radio station. Some of the interviews also appear on cable services such as USA Network. And Bloomberg has even started a glossy monthly magazine that offers everything from chatty profiles to dense studies of option-adjusted spread analysis.

Bloomberg's strategy is simple: He wants to offer his data in as many media as possible. So he is even mulling a further push into TV, perhaps with a cable network. And rivals and employees are asking: Does Mike Bloomberg want to be the next Ted Turner? Or does he still regard news as an extra bit of data, to be peddled alongside his stock quotes and yield-curve charts?

Until now, the 51-year-old Bloomberg has made his name in the world of numbers rather than letters. A former head of the equity trading desk at Salomon Brothers Inc., Bloomberg started his company in 1981 with money he netted from the sale of Salomon to Phibro Corp. Since breaking into the $2.5 billion market for real-time financial data, Bloomberg has used low prices, crackerjack technology, and assiduous customer service to take on giants such as Reuters Holdings PLC and Dow Jones & Co. With 29,000 terminals, Bloomberg is still way behind the 200,000 of Reuters and 95,000 of Dow Jones Telerate, though his 52% growth in terminals in 1992 outstripped both.

Reuters and Dow Jones are also bolstering their multimedia capabilities, though, and both have more resources to do it (table). For Bloomberg, branching into capital-intensive areas such as radio and TV could drain away cash he needs to stay ahead in technology: "People are wondering if he is spreading himself too thin," says Margaret T. Fischer, director of the electronic information practice at market researcher Link Resources Corp.

Bloomberg insists media services are simply a shrewd

way to market his core product. Ea time he introduces a new one, he sa sales jump. In 1989, when he start the wire service, he had 7,500 subscri ers. Today, he is pushing 29,000. L year, he sold terminals at a rate of 65 month. Since the radio station, WB went on the air in January, he has be selling more than 900 a month, at $1, per terminal. On a recent trip to M nich, Bloomberg says his German ho all wanted to talk about WBBR: "Eve body wants to be involved in med That's all they talk about."

No question, Bloomberg's revenu have spiraled along with his visibili This year, his company, which is 3 owned by Merrill Lynch & Co., sho generate an estimated $382 million revenue, compared with less than $ million in 1989. Bloomberg won't d close profits, h

CAN BLOOMBERG BE HEARD ABOVE THE DIN?

Key media

NEWS SERVICES

BLOOMBERG
170 reporters and editors, 39 news bureaus

REUTERS
1,300 reporters, editors, and photographers, 120 news bure

DOW JONES (TELERATE)
900 reporters and editors
(INCLUDING WALL STREET JOURNAL STAFF)

BLOOMBERG SAYS EVERY TIME HE STARTS A NEW VENTURE, SALES OF HIS MACHINES JUMP. "EVERYBODY WANTS TO BE INVOLVED IN MEDIA. THAT'S ALL THEY TALK ABOUT," HE SAYS

ıard J. MacDonald, a media analyst Vasserstein Perella Securities & Co., res he generates an annual cash flow p to $200 million.

o far, Bloomberg has run his media tures on a shoestring. Bloomberg iness News has a budget of only $9 ion a year. As Winkler hires new rters to reach his target of 250 staff- though, those costs will rise. And e Bloomberg bought his radio station a low $13.5 million, it has won few ners and is losing money. He insists R will turn a profit in 1994.

onically, Bloomberg jumped into me- as a defensive strategy. He has of- d the Dow Jones News Service on terminals since 1982. But as Bloom- ; made inroads on competitors such ow Jones Telerate, it became clear he couldn't rely on outsiders for news. Indeed, Dow Jones has informed Bloomberg that at the end of 1993, it will no longer sell news from its AP/Dow Jones joint venture on Bloomberg's terminals overseas. Dow Jones will keep selling its news wire to Bloomberg's U. S. customers, though insiders say that will eventually end, too.

OLD HANDS. Bloomberg gets exposure for his news service by offering it gratis to 52 papers, including *The New York Times* and *The Boston Globe*. After two years of relying on fairly green reporters, Winkler has used his budget to lure more seasoned hands with experience at publications such as the *Times*, *The Wall Street Journal*, and BUSINESS WEEK. "The first year was 'show up and throw up,'" says Winkler. "Now we want to provide stories that can stand scrutiny on any platform."

The bulk of Bloomberg's 1,700 daily stories are still cut-and-dried summaries of interest-rate fluctuations or corporate earnings. Winkler, though, is urging his reporters to range more widely. He recently published a series from Thailand, for example, which included a feature on child labor. Newspapers say they are growing more confident of the quality of Bloomberg articles. But Larry Edelman, assistant business editor of *The Boston Globe*, says the reports still contain more inaccuracies than Dow Jones or Reuters.

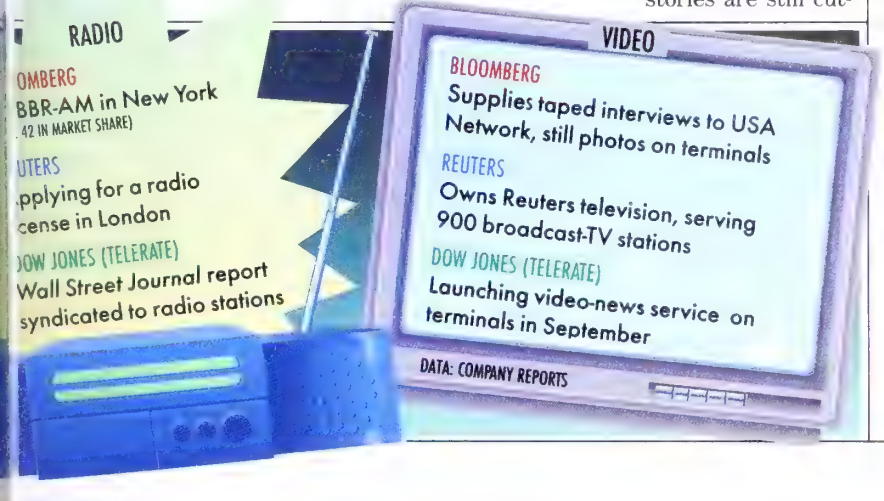
That hasn't prevented both rivals from eyeing Bloomberg warily. "We do respect him," says Julian B. Childs, executive vice-president of Telerate. "He is a viable competitor." Andrew M. Nibley, editor of Reuters America, says Bloomberg remains a secondary news source. But that has advantages: Bloomberg has carved out specialties in areas such as bond-market coverage. Now Nibley wants to bolster Reuters' reporting on bonds.

A bigger issue is whether there is a market for stories that stray beyond pure business. John Sabre, a managing director of Indosuez Capital, says he values the Bloomberg machine for its trove of information about the underwriters of bonds. But as for nonfinancial news: "I don't care what's going on in Sarajevo at 5:04 p.m.," he says.

Bloomberg may also be vulnerable if he continues to insist on selling his news and data only to subscribers who lease his machines. Rivals offer services via personal computers and even through competing systems. Even fans are frustrated by not being able to transfer his data into their computers: Bill Michaelcheck, chairman of Mariner Investment Group, says he favors Knight-Ridder Inc. terminals for that reason.

Beyond such nitty-gritty issues, one has to wonder whether Bloomberg has the news business in his blood. He wants his wire service to be as hard-hitting as its more established brethren. Yet he is bothered by the visceral skepticism of journalists: "When someone comes up and smiles sweetly at you, you're normally receptive, unless you're a journalist, in which case, you're wondering what's up their sleeve." Given what Bloomberg has already pulled out of his sleeve, his rivals had better not be distracted by his smile.

By Mark Landler in New York



DEFENSE

THE GODFATHER OF STEALTH WON'T SLIP THIS ONE BY

To overhaul Pentagon purchasing, Bill Perry will have to go to war

Deputy Defense Secretary William J. Perry is a Pentagon rarity: someone with a track record for overcoming bureaucratic resistance and cutting through red tape. As a top Defense official in the Carter Administration, Perry championed radar-evading stealth technology and cruise missiles over the objections of skeptical generals and admirals. And he slashed a decade off typical development time for weapons, putting stealthy fighters and cruise missiles into production in four years.

Now back in the Pentagon after 12 years in the private sector, Perry is taking on an even tougher task: He is overhauling the way the Defense Dept. buys all military gear, from tents to tactical missiles. His plan involves junking thousands of unique military-product specifications and contracting practices (table) that inflate the Pentagon's $45.5 billion procurement budget by increasing manufacturers' costs and limiting suppliers to those willing to jump through all the military hoops. Instead, Perry wants to replace customized goods with off-the-shelf commercial products. That, he argues, would enable Defense to save billions in overhead, gain faster access to advanced technology, and broaden its shrinking base of suppliers.

LEGACY. To succeed, Perry will have to shake up the Pentagon's entrenched culture and defuse opposition on Capitol Hill, which over the years has imposed strict contracting practices to stamp out procurement fraud. And he will have to overcome a history of procurement-reform proposals that went nowhere.

Still, Perry has the backing of the White House, Defense Secretary Les Aspin, and Armed Services Committee chairmen Senator Sam Nunn (D-Ga.) and Representative Ronald V. Dellums (D-Calif.). And he's determined to achieve what has eluded others. "When I leave this job in four years, I'd like to look back and say I've left some legacy," he says. "Acquisition reform is high on the list of things I'm trying to change."

Perry seems well groomed for the task. He has seen military acquisition from both sides of the fence. A mathematician by training, Perry co-founded ESL Inc., a Silicon Valley defense electronics company, before becoming Defense Under Secretary for Research & Engineering in 1977. After leaving the Pentagon in 1981, he became managing director of Hambrecht & Quist, a San Francisco venture-capital firm that backs high-tech startups, many that do defense work. He later chaired a consulting firm whose clients included Lockheed Corp., Boeing Co., and other military contractors.

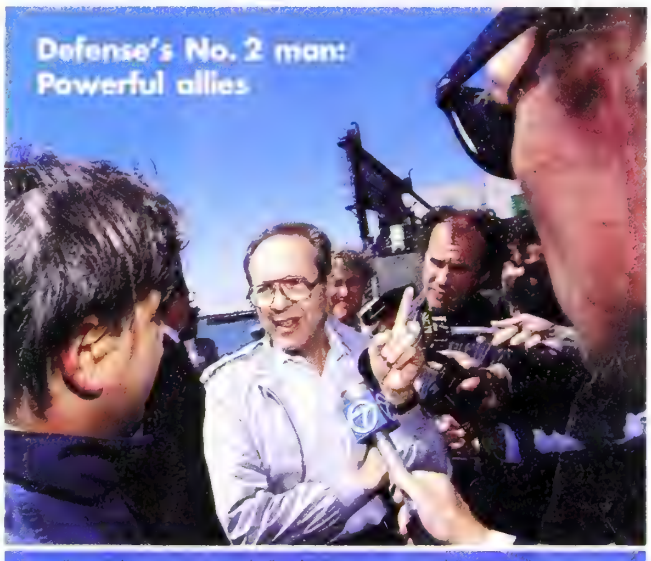
In security circles, Perry, 66, commands respect as the godfather of stealth and other sophisticated weapons that proved effective in the Persian Gulf War. His reputation was burnished during his tenure at Stanford University's prestigious think tank, the Center for International Security & Arms Control, where he worked with former Soviet officials on defense conversion. His track record, wide-ranging intellect, and a 16-year friendship with Aspin give him clout in the Administration.

DRIVING FACTOR. Soft-spoken and gentlemanly, Perry doesn't seem the type to challenge the status quo. But aides say his persuasion, not frontal attack, is his style. "He has a knack for putting himself psychologically in the place of government and industry people and synthesizing an approach they can accept," suggests Vita Bellmber, a Perry deputy in the Carter era.

Perry's gracious ways mask enormous discipline and drive. In an Administration where top officials take their cue from habitually late President Clinton, Perry is punctual. His "in" box is crammed with paper on budget issues, base closure, and other day-to-day problems of the Pentagon. But he believes he must focus on bigger-picture questions such as procurement reform.

Cost is the driving factor behind Perry's push. Industry experts estimate that much of the work required to comply with onerous rules gobbles up 20% of the Pentagon's procurement budget. "Milspecs," the 5,000 specifications that dictate in minute detail the capabilities and even manufacturing method of everything the military buys, are a key culprit. Some are ludicrous, such as a 30-page specs for lemon-pie filling.

Switching to commercial standards could save the Pentagon a bundle, says M. Black, executive vice-president of Rockwell International Corp., whose company was able to shave nearly 40% off the price of global-positioning system (GPS) receivers the U. S. Air



Defense's No. 2 man: Powerful allies

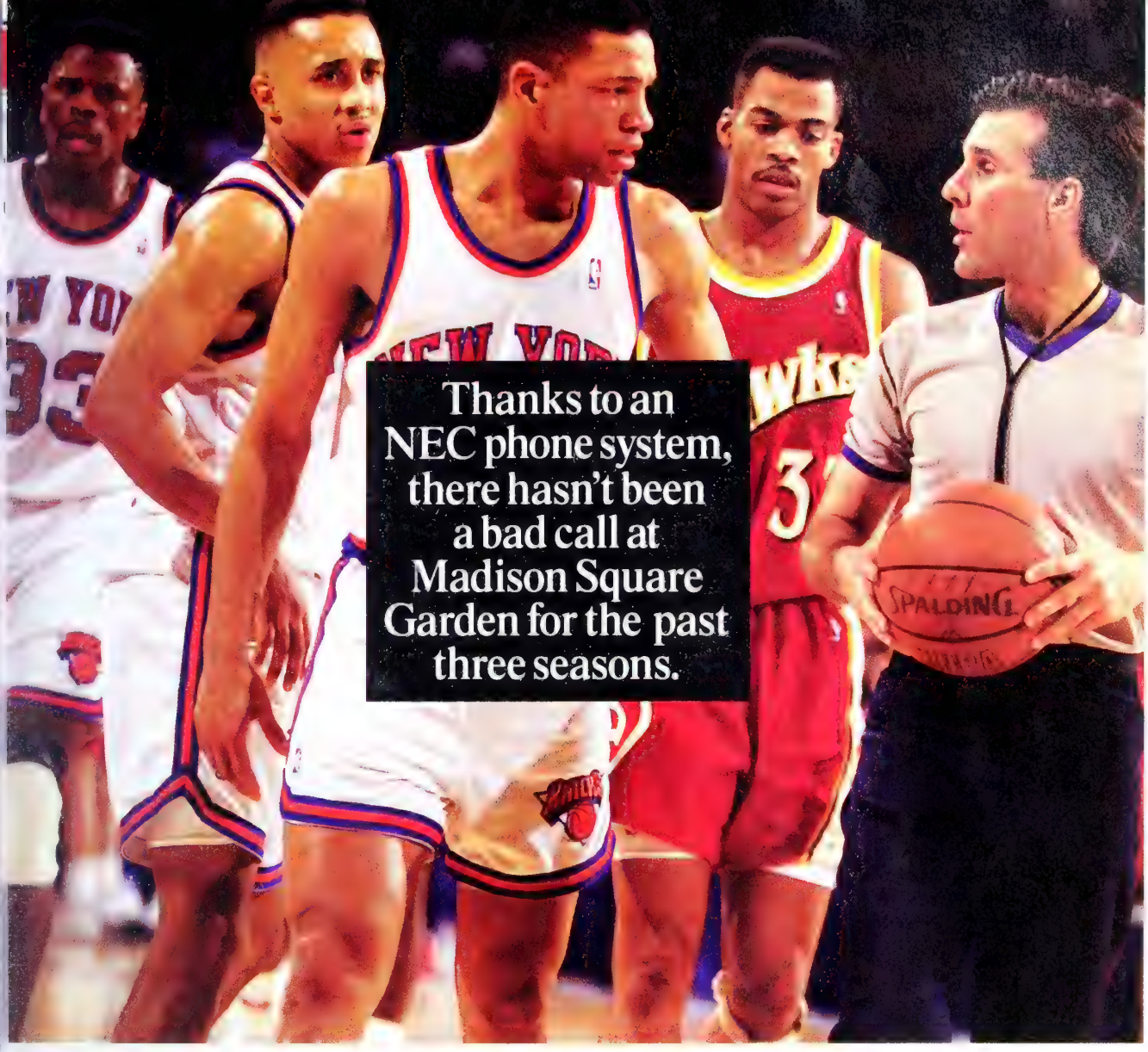
THE PENTAGON'S CULTURAL EVOLUTION

To save billions in overhead, which eats up some 40% of the Defense Dept.'s procurement budget, Bill Perry would:

JETTISON many of the 35,000 specifications that dictate in excruciating detail the capabilities of everything the military buys, from fruitcakes to fighter planes

ELIMINATE special accounting and other rules that prevent the Pentagon from buying commercial items from nondefense contractors

PERSUADE Congress to drop buy-American, small-business, and other socioeconomic requirements for military purchases under $100,000



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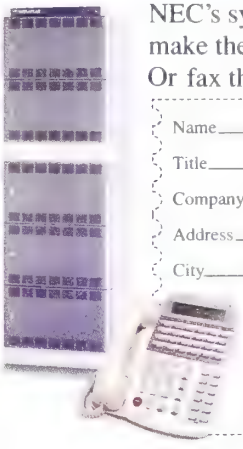

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ordered in March because the service set only performance standards.

Stringent accounting rules and the legions of Pentagon auditors that scrutinize compliance also boost costs. Now, some lawmakers think that has gone too far. "While guarding against waste and fraud, you shouldn't spend millions of dollars trying to save thousands," says Senator Jeff Bingaman (D-N. M.), chairman of the Senate Armed Services acquisition subcommittee. Working with Perry, Bingaman plans to introduce a procurement-reform bill early in 1994.

Fear of incurring criminal penalties for violating the accounting safeguards forces most contractors to erect internal walls between their commercial and defense operations. Rockwell, for example, makes commercial GPS receivers at a plant in Richardson, Tex., and similar military receivers in Cedar Rapids, Iowa. "We won't allow a commercial business to take a [defense] contract," says Black. "We can't take the risk that it will inadvertently break the law."

Besides jacking up prices, the separation slows access to advanced technology in the commercial sector. Consider what happened when the Army placed a rush order for 6,000 Motorola Inc. commercial radio receivers at the outbreak of the gulf war: Because that Motorola unit lacked the record-keeping systems the Pentagon requires to show it is getting the lowest available price, Motorola was leery of selling. The Pentagon got the receivers only after Japan bought them for the U. S. Army.

"SUICIDE." Business is divided over Perry's plans for streamlining Pentagon shopping. Large companies are enthusiastic. Acquisition reform "would give us more opportunity to bid on contracts with the Pentagon," says Jim Baum, senior vice-president at Motorola Government & Systems Technology Group.

But small businesses fear losing mandated preferential treatment under Perry's plan to drop minority and other preferences for purchases under $100,000, and they have plenty of support on Capitol Hill. Many lawmakers will balk at some of Perry's ideas, many of which will require congressional approval. "A member from Detroit is not going to support doing away with 'buy American' provisions," says a House staffer. "It would be political suicide."

Perry is optimistic that despite the resistance, this time procurement reform will work. Having forged a team of both top defense officials and politicians committed to the overhaul, he's better positioned to make changes than previous reformers. And he has an argument that few dispute: In an era of shrinking budgets, the Pentagon can no longer afford the acquisition system it now has.

By Amy Borrus in Washington

LAW FIRMS

THE VERDICT: GUILTY OF OVERCHARGING

Companies are cracking down on the high cost of outside counsel

Lawyers with Bendini, Lambert & Locke lived the high life in John Grisham's summer-film blockbuster *The Firm*, dining at chic restaurants and hobnobbing at exclusive country clubs. But when all was said and done, Grisham exposed the white-shoes crew as nothing more than common thieves. Bendini Lambert went down for bilking clients. The scenario, though extreme, illustrates a problem faced by businesses every day: figuring out whether their lawyers are playing it straight.

The task is time-consuming and often unpleasant, but for companies battling ever diminishing budgets, it can be fruitful. General Dynamics Corp., for example, lopped off $186,000, or 42%, from just one bill when it discovered a law firm charging for what ended up being virtually useless research. Motorola Inc. saved a pocketful when it confronted counsel for billing it for hours spent preparing documents that, because of a statute passed a year earlier, were no longer required.

A SQUEAL. For the most part, companies aren't grumbling about the relatively rare instances of outright fraud. What concerns them more are their lawyers' freewheeling spending habits. "Outside firms charge you for every squeal of the pig," complains Hans U. Stucki, senior litigation counsel at Motorola. Shelby Yastrow, general counsel at McDonald's Corp., relates a story from a few months back when he met with a New York firm to complain about excessive fees. A few days later, he was billed for that meeting. "They had sweet rolls and coffee brought in and billed us for that too," says Yastrow, who manages about 500 law firms used by McDonald's.

Lawyers and their clients are both to blame for their increasingly tense relationship. Corporations for a long time merely rubber-stamped their lawyers' bills. And most failed to spell out how much spending they would tolerate. For the lawyers' part, intense pressure to meet billing quotas invited excess charges—a situation that was only made worse by the recent recession. "Partners and associates risk being fired if they don't bill enough hours," says Robert Baum, a former associate with a Washington, D. C., firm who recently left for a job at the Interior Dept.

Aggressive billing practices are no doubt one reason why the legal profession's receipts ballooned to about $91 billion in 1991, a doubling from 1984, according to the most recent figures from the Census Bureau. The tab for the insurance industry alone is exploding. Legal expenses for 1993 are expected to top $35 billion, up from $16 billion in 1987, according to a New York University study. Boston-based Liberty Mutual Insurance Co. estimates it will spend $400 million on lawyers this year—second only to its personnel expenditures.

Many companies, including Liberty Mutual, are fighting hard now to get

ol of their legal budgets
rein in their lawyers'
nsity to spend. Corpora-
such as Merck, Citicorp,
Valt Disney have adopted
sive guidelines that place
on hourly fees and reim-
ble expenses. The list of
nd don'ts covers every-
from how much may be
on photocopying to the
er of attorneys authorized
rk on particular matters.
lition, standardized billing
ts have been set up to
lawyers to account for eve-
lar spent by detailing each
erformed.
as far, the results have
impressive. Liberty Mutu-
ich only began its cost-cutting pro-
in June, says it is running 3% be-
udget. It has pared back the
er of firms it employs from 3,000
00, dropping counsel who refuse
ply with its cost structure. Gener-
tors Corp. has gone a step fur-
Over a two-year period, the auto
developed an extensive data base

tracks litigation and determines
the average cost for resolving cer-
natters should be. Firms whose
all outside the averages are asked
lain themselves—and often reduce
bills. "We have become enlight-
consumers," says Robert C. Wein-
, a senior member of GM's legal
who boasts that GM's legal costs
fallen by more than $40 million
1990.

BATTLING THE BULGE OF LEGAL BILLS

- Establish limits on how much to pay for services and what kinds of expenditures are reimbursable
- Issue billing formats that force law firms to break down their fees
- Use alternative billing schemes, such as fixed fees, result-oriented billing, and hourly rates that reflect many routine office expenses
- Audit legal fees, either internally or by hiring a fee specialist
- Upgrade in-house legal staff to manage all nonlitigation matters

Audits of legal fees have found everything from lawyers billing for their neckties to those who reported working more than 24 hours a day

Surprisingly, many law firms seem to welcome some of the self-evaluation that is being pushed on them. Over the years, cost controls have become lax while well-heeled clients have sometimes been taken for granted. "I've tried to tell our people not to view this as an insult but as a challenge," says John J. Sheehy, head of litigation at New York-based Rogers & Wells. But lawyers such as Sheehy also caution companies against going too far. They note that what may seem to be overcharges are often simply the ordinary costs of getting a job done right.

Still, the urge to curb fees has become so widespread that auditing firms have emerged to perform this specialized task. Companies such as Legalgard Inc. and Legal Triage Services Inc., both based in Philadelphia, are flourishing. Legalgard has reviewed more than 4 million invoices and says that it finds suspect charges in four out of every five bills. While not every questionable bill is evidence of wrongdoing, John J. Marquess, founder of Legalgard, says that on average his audits have resulted in the trimming of lawyers' fees by 10% to 30%.

Although Marquess has uncovered everything from lawyers charging clients for their neckties to those who bill for more than 24 hours of work a day, he says that the bulk of his clients just want help figuring out what their lawyers are worth. "The days of being able to submit a bill and have it paid are over," says Marquess, whose clients include Mattel Inc. and Lucky Stores Inc. "At some point you have to draw the line."

For many companies, drawing the line involves straying from the traditional hourly billing format. Aluminum Co. of America, for instance, agreed on Aug. 1 to pay New York's LeBoeuf, Lamb, Leiby & MacRae $6 million to $7 million yearly to handle all of Alcoa's litigation. The flat-fee experiment, one of the first of its kind, reduces Alcoa's outside litigation firms from 150 to just one. But more important, says General Counsel Lee Holz, it will substantially reduce Alcoa's legal budget, although he wouldn't say by how much.

To land the deal, LeBoeuf agreed to take on several of Alcoa's in-house attorneys and open a Pittsburgh office. It also promised not to charge the company extra for routine office expenses, except when approved in an emergency situation. By using a flat fee, LeBoeuf can increase its profits if it can keep costs down. The firm stands to more than triple its earnings from Alcoa-related business, according to Grant Lewis, head of LeBoeuf's litigation group. About those firms that fail to see that times have changed, Lewis says: "If they don't bend, they're going to break."

DISCOUNTING. These days, lawyers are bending in ways unimaginable just a few years ago. Wilmer, Cutler & Pickering in Washington, D. C., recently offered to handle a sensitive matter, which involved accusations of bigotry in the awarding of franchises, on a contingency basis for McDonald's. Wilmer Cutler's fees will be based largely on the outcome of the suit. Richmond (Va.)-based Hunton & Williams is another McDonald's favorite because it routinely discounts fees when a case is lost.

Such sensitivity toward the client is being applauded by many businesses. But for some, it's too little, too late. Motorola got so fed up with its outside legal costs that it decided to see if it could do some of its litigation more cheaply itself. Internal studies reveal that Motorola's own lawyers do cost less—$118 per hour compared with $200 for outside counsel. Based on those figures, the company estimates that it saved $71,000 on a recent commercial matter.

While the '80s proved to be the decade of spending, the '90s are unfolding as the decade of saving. For lawyers, adapting to the times will take some doing. But if they can learn to restrain themselves, they may end up starring in fewer movies—at least as the villains.

By Linda Himelstein in New York

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MINI-NATIONALS ARE MAKING MAXIMUM IMPACT

These little giants are emerging as a boon to American jobs and exports

MOLEX

Electrical connectors

Fred Krehbiel's business used to be small potatoes. Now it's bigger than U.S. sales

When Frederick A. Krehbiel graduated from college in 1963, his older brother was already running U. S. operations for the family business, Molex Inc. That left Fred with the rest of the world, which seemed like a consolation prize for the No. 2 son. His father gave him a paltry budget of $25,000 to start attacking the Japanese market. "I think he was merely trying to find something for me to do," Fred now says.

Undaunted, Krehbiel started his research at Chicago's Public Library. There he learned about Japan's booming television industry—the key market for Molex' electrical connectors and cables. He also took a course on exporting at nearby Roosevelt University. Within months, he had a joint-venture partner in Japan. Thirty years later, his business in Japan accounts for a third of Molex' sales—more than the U. S. operation. At 52, Fred now runs the entire company, and his brother is No. 2.

NICHE-SCRATCHERS. What's a $776 million virtual unknown like Molex, from Lisle, Ill., doing behaving like a big multinational? Making money, that's what. And it's got plenty of company. Hundreds of midsize companies are bulking up abroad. There's Ametek in Paoli, Pa., making vacuum-cleaner motors in Italy. Pall Corp., of East Hills, N.Y., is beginning to make sophisticated blood filters in Britain. And Applied Materials Inc. in Santa Clara, Calif., is assembling computer-chipmaking machines in Japan.

Call them the little giants. Bigger and more sophisticated than legions of tiny exporters, this emerging tier of companies is opening factories, research labs, and sales units around the world. True, with sales of only $200 million to a little more than $1 billion, they're still dwarfed by the largest multinationals. But today, these "mini-nationals" are emerging as a boon to U. S. competitiveness and jobs.

Even with slow economic growth in Europe and Japan, U. S. exports keep eking out modest growth, thanks in part to the mini-nationals. Despite a decline in July, U. S. exports have grown by 5% so far this year in real terms. The mini-nationals' secret is that their products are often unique because of their technology, design, or cost. That helps insulate them from the vagaries of business cycles and currency fluctuations.

The government does not measure the international performance of U. S. companies. But BUSINESS WEEK sifted through hundreds of smaller, internationally active companies and identified 50 of the best (page [illegible]). Their combined sales [illegible] $30 billion, or an a[illegible] age of about $600 [illegible] lion, and they've [illegible] growing at an aver[illegible] annual clip of 22.9%. [illegible] average, they make [illegible] of their sales outside [illegible] U. S., including exp[illegible] and items made and [illegible] abroad. That's sig[illegible] cantly higher than [illegible] 1,250 U. S. manufac[illegible] ers tracked by the C[illegible] ference Board, wh[illegible] foreign sales aver[illegible] 35% of their total.

Some experts are [illegible] ginning to argue [illegible] these midsize stars [illegible] remaking the global [illegible] poration for the '90s [illegible] beyond. As the str[illegible] bling of so many [illegible] athans has dem[illegible] strated, sheer [illegible] may no longer [illegible] buffer against cor[illegible] tition. The fu[illegible] could belong [illegible] younger, smaller [illegible] panies with nim[illegible] feet and stronge[illegible] cus. "The newcomers have the huge[illegible] vantage of starting fresh," says Chr[illegible] pher A. Bartlett, Harvard busi[illegible] school professor and co-author of *Ma[illegible] ing Across Borders: The Transnat[illegible] Solution*. "They can develop much r[illegible] flexible structures."

Indeed, mini-nationals are noted[illegible] their lean operations. By taking ad[illegible] tage of today's more open trading[illegible] gions and newer technologies, the[illegible] able to serve the world from a har[illegible] of manufacturing bases. That sp[illegible] them the necessity of building a pla[illegible] every country, as Ford, Goodyear [illegible] IBM once did. Their smaller bureau[illegible] cies have also allowed mini-national[illegible] move swiftly in seizing new mar[illegible] and developing new products—a [illegible]

ESSONS ROM THE INIS

USINESS WEEK rveyed 50 mid-ze companies with mbined sales of ore than $30 bil-n. On average, ternational sales ake up 44% of to-l revenues. The sons they offer:

1. **KEEP FOCUSED** Concentrate on being No. 1 or No. 2 in technology niches. Don't compete in commodity products.
2. **STAY LEAN** Lean headquarters structures save money. They also speed decision-making.
3. **COMB THE WORLD** Take ideas and technologies wherever you find them and apply them globally.
4. **TAP THE FOREIGNERS** Use foreigners to manage offshore units, and bring them into senior positions at home as well.
5. **SOLVE THE CUSTOMER'S PROBLEMS** Design products for customers—even invite them to the lab. Don't try to fob off existing standardized products.

petitive advantage in the rapidly lving global market. For example, ıbol Technologies Inc. invented the l of handheld laser scanners and inates it. In a field that didn't even t five years ago, Cisco Systems Inc. ns 50% of the world market for gear , connects networks of computers.

Despite the wide diversity of busi-ses that these companies represent, little giants have succeeded by hew-to some basic lessons. For starters, i-nationals must be sharply focused. h their small size, they can afford to on the world only in one or a hand-of niches. The key, says Perkin-Elmer p. CEO Riccardo Pigliucci: "Do what know how to do. Do it right. And it everywhere." That helps compa-grow without diversifying too far ld, which often leaves them vulner-. The goal usually is to be No. 1 or 2 niche globally.

o help accomplish this, mini-na-als typically avoid commodity nesses, where huge rivals with efficiencies of scale can bury n. Instead, they tend to focus specialty markets where vol-s are low, margins are high, detail work is painstakingly ise. As a result, the plants of y mini-nationals feel more like kshops than factories. At an etek precision instruments t outside Pittsburgh, techni-s quietly piece together spe-y gas-detecting machines sell for upwards of $20,000. ut the niches aren't neces-y small. Pall keeps its focus ilters alone. But within that ningly snug slot, it has un-ered scores of new markets applications. Pall makes rs for the brew-and pharmaceuti-ndustries, for jet ines and earth-ing equipment. of its hottest s is filters for d, which labs use to strain out viruses such as the one that causes AIDS. "We've defined our markets, and in many cases invented them," says CEO Maurice G. Hardy.

BIG PUSH. Mini-nationals must also try to squeeze the most out of every scarce buck they have. To survive, these companies need to spend those vital dollars on R&D, and they must set up operations in pricey outposts such as Germany, Japan, and Hong Kong. Kenneth F. Yontz, CEO of Milwaukee's Sybron Corp., is running three businesses at the same time—laboratory instruments, water-purification systems, and dental products. He's pushing them all internationally with factories in Hungary, Mexico, and Wales. But Yontz keeps his headquarters lean. As a result of a restructuring during the 1980s, headquarters staff at the $382 million company is down from 155 to 22. Fewer managers also make for quicker decisions.

Successful little giants are also open to new ideas from around the world. A surprising number have set up R&D laboratories in other lands. This allows them to tailor products for each market while getting the jump on the latest technological trends.

Medtronic Inc., a Minneapolis mini-national that makes pacemakers and other medical devices, opened a plant two years ago in Japan—both for manufacturing and research. Now, says Executive Vice-President Arthur D. Collins Jr., the company is "tapping into exciting technology," including both micromachining and miniaturization. Similarly, the company's presence in Europe has already paid off in its recent U. S. introduction of a groundbreaking implantable device that treats rapid heartbeats. The market could reach $1 billion, and it was all possible because of research and early development work done in Europe.

Setting up in Japan proved key to making Applied Materials a world leader in a field in which many U. S. companies have been shoved out. In the late 1970s, CEO James C. Morgan realized that Japan was home to almost half the world's chip market. So he started with a sales and service office in Osaka and then built a $9 million technology center in Narita. Now AMI has 800 employees and 14 sales and service offices in Japan. Most of the manufacturing takes place in the U. S., with only final assembly and customization in Japan. But the lessons AMI learned in Japan about perseverance and emerging technologies have been applied around the world.

What's remarkable about mini-nationals is how few Americans are involved in managing offshore operations and how many foreigners have important jobs at home. Loctite Chairman Ken W. Butterworth is Austra-

MICHELE BEGAU

AMETEK

Motors and instruments

Sticking to a niche is a matter of survival for minis, since multinationals could bury them

RPORATION

lian, and the new CEO, David Freeman, is British. Perkin-Elmer's new CEO, Pigliucci, is an Italian who worked his way up the ranks of the company's European operations. No fewer than 16 nationalities pepper the top management ranks at Applied Materials.

One reason the mini-nationals lure so many non-Americans is that their own management has scant experience with global markets. That was the case with Haworth Group Inc., a privately held $600 million maker of high-tech office furniture in Holland, Mich. After making 10 acquisitions in Europe, it decided to tap Manfred H. von Prondzinski as vice-president of its European operations. Von Prondzinski had been managing director at Comforto Group, a German maker of office seating products, which Haworth acquired in 1988. Now the Prussian, who speaks four languages, is helping the U. S. company to manufacture aluminum components of office chairs in Italy, ship them to Portugal for wood trim and upholstering, and then on to Germany for robot welding.

Employing non-nationals gives the little giants a better feel for foreign markets. Symbol Technology's key international strategist, Tomo Razmilovic, argues that a heavy presence of foreigners in his company's management ranks allows it to anticipate needs in Europe and actually design products for those needs, not merely treat those markets as an afterthought. "It's not good enough to have a general-purpose product and try to get local people to sell it," he says. "You have to bring some of those local people to the center of the whole company."

LEAN STRUCTURES. Finally, mini-nationals must focus on their customers. Many owe their births to finding a solution for a client. Cisco, the booming Silicon Valley maker of computer networking gear, grew out of Stanford University, where its founders, Leonard Bosack and Sandra Lerner, ran the computer operations of two different departments. The manufacturers of the computer systems had little interest in helping customers tie them together, but Bosack and Lerner desperately wanted to make their computers talk to each other.

So the two won a federal grant to devise a system to do it. When word of their success got around, Boeing Co. asked them to tie together its computers. And then Japan's Nippon Telegraph & Telephone Corp. got them to work on an emerging networking standard. By solving problems for its customers, Cisco has grown into a $340 million company. Last year, it grew 85%, one of the fastest rates for a c pany its size in all of Silicon Valley.

Big companies sometimes have tr ble solving customers' problems beca their own sales, research, and manu turing units don't communicate smoo ly. But that comes naturally to the li giants. With their lean structure, not hard to have the key players sales, R&D, finance, and management focused on the customer. If you stand the labs at Pall, for example, you see technicians working directly w customers. That triggers ideas for n products. Although Pall invests only of sales in R&D, 70% of its filter prod didn't exist five years ago. Resea pours right into the marketplace.

To be sure, the little giants face c lenges. With their tiny margin for er some are sure to stumble in the mar place. The failure rate in high-tech fi such as computer disks is particula high. Others could become takeover gets, even succumbing to their fore joint-venture partners.

One key dilemma: how to stay l and focused when they're not so li anymore. Walter E. Blankley, presid and CEO of Ametek, says that compa must be broken down when they re $2 billion in sales "to avoid vert structure." Thermo Electron Corp $947 million-a-year maker of ene equipment in Waltham, Mass., atten to solve the dilemma by continually s ning off successful technologies into companies. Cisco's CEO John P. M ridge worries about "hitting the w at $500 million in sales, but plans plow past that barrier without bre ing the company into pieces.

For the moment, however, what's portant is how these little giants coming of age. The implication for overall U. S. economy is that exp can still expand even amid slow nomic growth in Europe and Jap since many of the mini-nationals h only begun to exploit their niches. spite current economic shock wa they are playing a crucial role in cr ing the distribution system and on- ground savvy that keep U. S. pa capital goods, and finished prod flowing from U. S. shores. As a re this distinctive breed is showing c panies around the world, large small, how to take advantage of gl business in the fast lane.

By Stephen B in Paoli, Pa., K Kelly in Lisle, Robert D. Hof in ta Clara, Calif., liam J. Holstein East Hills, N. Y., bureau reports

PALL

Filters

In several cases, says CEO Hardy, Pall has invented its own markets

50 LITTLE GIANTS

ere is a selection of U.S. manufacturing companies with a minimum of $200 million in sales. At least 20% of their sales are ernational, including both exports from the U.S. and goods manufactured and sold offshore.

NE/Location	1992* overall sales ($-mil.)	Percent Int'l.	PRODUCT NICHE	INTERNATIONAL PROFILE
VANCED TECHNOLOGY LABS/Bothell, Wash.	$323.7	40.0%	Medical ultrasound systems	Subsidiaries, dealers in more than 80 countries
ETEK/Paoli, Pa.	769.6	30.0	Small motors, precision instruments	Manufactures in Italy, Germany, and Denmark
SCO INTERNATIONAL/Pittsburgh	498.2	20.0	Sterilization equipment, surgical tables	Plants in Finland and Germany
'LIED MATERIALS/Santa Clara, Calif.	751.4	61.0	Semiconductor production equipment	Manufacturing in Japan since 1986
KMAN INSTRUMENTS/Fullerton, Calif.	908.8	55.0	Lab equipment for biological research	Relies mostly on exports, but also manufactures in Ireland
I. BRADY/Milwaukee	236.0	30.0	A small version of 3M	Big in Europe and the Far East
RRY/Waukegan, Ill.	266.2	50.0	Auto parts, computer keyboards	Big presence in Europe, with operations in Germany
RUS LOGIC/Fremont, Calif.	354.8	60.0	Controller chips	Supplies PC and disk-drive makers in the Far East
CO SYSTEMS/Menlo Park, Calif.	339.6	36.0	"Internetworking" gear	Connects networks of personal computers worldwide
ITINENTAL CAN/Syosset, N.Y.	511.2	58.0	Packaging	Manufacturing in Europe. Recent acquisition in Czech Republic
TER/Windsor Locks, Conn.	951.4	38.0	Specialty materials and coatings	Production in Europe, Canada, and New Zealand
IATECH/Burlington, Mass.	528.0	33.0	Intercommunications systems	British manufacturing units
:/Hopkinton, Mass.	349.1	35.0	Data storage technology	Major manufacturing plant in Ireland for Europe and Asia
RO/Cleveland	1,097.8	57.3	Plastics, chemicals	Manufacturing in Europe and Australia
IN FLUKE MFG./Everett, Wash.	271.8	36.0	Testing and measuring equipment	Just bought Phillip's European operations
IERAL DATACOMM IND./Middlebury, Conn.	197.9	38.0	Multimedia and telecommunications gear	Significant expansion in Latin America and China
ARDIAN INDUSTRIES/Northville, Mich.	1,200.0	50.0	Automotive and architectural flat glass	Manufacturing in Europe, South America, and Asia
:NISCHFEGER INDUSTRIES/Brookfield, Wis.	1,390.8	50.0	Heavy manufacturing equipment	Acquisition in Poland
VORTH/Holland, Mich.	650.0	20.0	High-tech office furniture	Made 10 acquisitions abroad
C/Northbrook, Ill.	708.2	48.6	Material handling, conveyors	Big buy in Germany recently
ERLAKE CORP./Lisle, Ill.	277.1	28.5	Fluid-handling products	Manufacturing in Ireland, Britain, Canada, and Singapore
... FLAVORS & FRAGRANCES/New York	1,126.4	70.0	Flavors and fragrances	Plants throughout Europe, Asia, and Latin America
ACARE/Elyria, Ohio	305.2	35.0	Home medical equipment	Manufacturing in Europe
STONE INTL./Houston	528.4	57.7	Valves and actuators	Plants in France, China, Australia, Japan, and elsewhere
TITE/Hartford	608.0	60.0	Adhesives and sealants	Strong position in 33 nations outside U.S., Canada & Mexico
D/Erie, Pa.	242.2	32.0	Industrial adhesives, fasteners	Plants in France, Japan, Germany, Brazil, and Mexico
)TRONIC/Minneapolis	1,328.2	40.6	Heart valves and medical implants	Research and manufacturing in Japan and Europe
LIPORE/Bedford, Mass	777.0	63.0	Scientific instruments, filters, separators	Plants in Japan, Brazil, Germany, and Australia
IE SAFETY APPLIANCES/Pittsburgh	502.4	42.0	Gear used in mining	Big markets in Germany, Britain, Hungary, Mexico, and China
LEX/Lisle, Ill.	776.2	72.0	Electronic components	Molex is strong in Japan and China
EDSON/Westlake, Ohio	425.6	67.0	Adhesive application equipment	Sells in 25 countries; manufactures in Europe and Japan
L/East Hills, N.Y.	685.1	62.0	Maker of filters	Relies heavily on offshore manufacturing
KIN-ELMER/Norwalk, Conn.	911.1	53.0	Analytical instruments	Production in Britain, Germany; representation in 90 nations
NEER HI-BRED INTL./Des Moines	1,261.8	29.0	Sophisticated seed hybrids	Big international push in Japa and former Soviet Union
D-RITE/Milpitas, Calif.	389.4	85.0	Recording heads for disk drives	Ships directly to U.S. drivemakers' plants in Far East
A/Medina, Ohio	625.7	22.0	Specialty coatings	Manufacturing in Europe
LED AIR/Saddle Brook, N.J.	446.1	31.0	Protective packaging	Plants in Europe and Asia; wholly owned subsidiary in Japan
SORMATIC ELECTRONICS/Deerfield Beach, Fla.	309.9	55.0	Electronic security devices	Sales in 55 countries
CON GRAPHICS/Mountain View, Calif.	866.6	47.0	Workstations	Strategic alliance with Siemens
DERGENERAL/Dallas	750.0	45.0	Air filtration	Plants in Europe, Singapore, India, and Mexico
NDARD MICROSYSTEMS/Hauppauge, N.Y.	250.5	44.0	Local area network hardware	Sales operations in Europe, Asia, and Australia
YKER/Kalamazoo, Mich.	477.1	31.0	Special surgical products	Plants in U.S., Netherlands, and Hong Kong
RON/Milwaukee	382.6	30.0	Laboratory equipment	Has production facilities across Europe and Asia
IBOL TECHNOLOGIES/Bohemia, N.Y.	344.9	35.0	Handheld laser scanners	No.1 in its niche in Europe; has joint venture in Japan
OPTICS/Santa Clara, Calif.	388.8	31.0	Computer networking products	15 sales offices outside the U.S.
M/Santa Clara, Calif.	617.2	50.0	Personal computer networking gear	Opened first European plant in Dublin; joint venture in Japan
RMO ELECTRON/Waltham, Mass.	947.0	23.3	Energy equipment	Owns British, Dutch, and French manufacturers
NTERNATIONAL/Boise, Idaho	400.5	20.0	Manufactured wood	Strong exports, manufacturing in Canada
HAY INTERTECHNOLOGY/Malvern, Pa.	664.2	50.0	Electronic resistors	Has made major purchases in Israel, France, and Germany
STERN DIGITAL/Irvine, Calif.	938.3	43.0	Computer disk drives	Most of its manufacturing is in Singapore

? OR LATEST FISCAL YEAR

DATA STANDARD & POOR'S COMPUSTAT SERVICES INC BUSINESS WEEK

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intel

BANKING

A CALL TO ARMS ON ARMs

Homeowners are suing lenders for overcharges—and winning

If the public should be able to trust banks for anything, it's probably to do arithmetic right. But that's not always possible these days. Thousands of homeowners have found themselves being overcharged on their adjustable-rate mortgages since the loans became popular. And instead of just getting mad, they're taking the banks to court—and they're starting to win.

Citicorp, First Nationwide Bank, Banc One, and others, while denying any wrongdoing, have paid millions to settle class actions filed on behalf of homeowners who claim they've been overcharged. Other suits are pending.

TWICE AS MANY. No one is saying that banks and thrifts are deliberately bilking their customers. But Richard Roll, president of Mortgage Monitor, a loan auditor in Norwalk, Conn. (box), says there is a "skew toward overcharges." And Consumer Loan Advocates, a Lake Bluff (Ill.) auditor that has reviewed more than 12,000 mortgages, says overcharges are about twice as prevalent as undercharges.

The problem first arose in the mid-1980s, when interest rates were high, home prices were rising, and adjustable-rate mortgages with low initial "teaser" rates hit the market. The rates on ARMs are typically based on many factors, including payment dates and rules for rounding off as well as the interest rate itself. And banks and thrifts were often calculating at least one of them incorrectly.

Many of the overcharges on consumer loans have run into thousands of dollars. David I. Ginsburg, president of Loantech, in Gaithersburg, Md., says he once helped a customer with a $125,000 mortgage uncover errors that stood to boost the cost by $38,000. The bank, which he declined to identify, calculated the customer's mortgage rate using wrong index for seven years.

For a while, borrowers simply c plained on their own. But as loan-au ing companies multiplied, auditors gan detecting patterns of problems specific banks and thrifts—and the l suits began. As many as a dozen com nies have faced ARM litigation.

BAIT AND SWITCH. Today, those suits proving costly to some well-kn banks. Columbus (Ohio)-based Banc recently settled a class action in In napolis charging that it set adjust mortgage rates too high. In Febru Citicorp agreed to pay $3.27 millio borrowers who had been overcharg The Citi settlement came shortly a First Nationwide, a thrift owned Ford Motor Co., settled similar su Gail Hillebrand, litigation counsel Consumers Union, the plaintiff in of the cases, says First Nationwide adjusting the mortgages in line with procedures described in actual documents, but its adverti promised a better deal. hard for consumers to ure out what they're s posed to be pay on an adjustable-r mortgage, but y think the banks w know," she says.

More lawsuits are the way. In N Hampshire, borrow allege that a dif ent problem is veloping, and civil action been filed aga Dime Savi Bank of N York, chargin with selling a l of adjustable-r mortgage that banned by Gra State law. A D spokesperson says New Hampshire cha are groundless bec the state law loans is superceded a federal law.

New problems are cropping up well. The refinancing boom, for exam has led thousands of consumers to off their mortgage loans early, ther locking in any existing errors in t adjustable rates. And some homeo ers who take the trouble and incur expense of refinancing really don't r to. They decide to refinance only cause they don't realize that they are ing overcharged on their existing lo

ıles of mortgages in the ıdary market also take a W. Joseph Yelder, who overcharged to the tune :1,000, says he first start- aving problems with his gage when his original er sold his loan. He says nterest rate on his mort- rose four percentage ts in one year, even gh the rate wasn't sup- d to change more than percentage points in any year. Thomas Caughran, lder of a $300,000 mort- that was repeatedly sold, he complained for more three years before he got te adjustment. He says hird owner of his mort- denied any liability sent him a check for than $22,000 in interest ıents.

nall-business borrowers ılso at risk, experts say. Consumer Advocates President John Geddes 80% of the floating-rate commercial he has audited contain errors, in because such loans are less uniform than consumer mortgages. He says excess charges average 0.6% of the loans' face value, or $12,000 on a $2 million loan, but he recently found a $200,000 error.

ADJUSTING ADJUSTABLES

Consumers are banding together in lawsuits against adjustable-rate-mortgage lenders who they believe are overcharging. All of the lenders below deny liability but have been hit by suits:

BANC ONE The Ohio bank settled a class action claiming that it charged excessive rates on adjustable-rate mortgages in several states.

CITICORP The bank agreed to set aside $3.27 million to repay mortgage holders who were overcharged. A bank spokeswoman says approximately 16,000 customers will get refunds.

DIME SAVINGS A civil action has been filed against the Dime in New Hampshire, charging that the savings bank's ARM product violated a 1988 state law. Civil suits have also been filed.

FIRST NATIONWIDE Settled suits charging that it misrepresented its terms in advertisements and calculated mortgage rates incorrectly. More than 24,000 customers may have been affected.

DATA: BUSINESS WEEK

To be sure, customers have more recourse today than they used to. The Cranston-Gonzalez Affordable Housing Act, passed in 1990, gives them the right to request a review of their mortgage, and banks are required by law to notify borrowers if their loans are sold. And there is a rapidly growing group of loan auditors who will review individual mortgages for a fee of $100 or so.

Experts agree that most of the mistakes are the result of understaffing and frequent turnover among mortgage-servicing employees. "These don't appear to be problems of purpose," says Robert Fryer, president of San Diego-based LoanChek. "They appear to be problems of competence."

Regardless of the motive, though, consumers are losing their patience almost as fast as they're losing money. And more and more, they're banking on the courts instead of their mortgage lenders.

By Kelley Holland in New York, with Mark Maremont in Boston

IF YOUR ARM FEELS FUNNY...

everal years ago, consumers who questioned rate adjustments on their mortgages had little re- rse. Today, though, public laws and ate services are in place to redress balance.

irst and foremost is the Cranston- nzalez Affordable Housing Act of 0. Under the act, when consumers plain to their bank in writing about roblem with their mortgage, the k must acknowledge the letter hin 20 days and address the prob- within 60 days.

tate statutes of limitations some- es come into play as well. Even if a has been repaid, consumers may e several years from the date of ayment to get errors corrected.

egulators are now taking an ac- interest in adjustable-rate mort- e rates. The Federal Financial Insti- ions Examination Council has eloped guidelines to deal with ks and thrifts that set variable-rate tgage rates incorrectly.

IDER INSIGHT. For consumers who ıld like to enlist the help of pro- sionals, a dozen or more loan-audit- companies are happy to help. Sev- l loan auditors, in fact, have had sonal experiences with mortgage ıs: David Machlin, president of ARM Technologies in Rockville, Md., used to make mortgage loans for a credit union, and John Geddes, head of Consumer Loan Advocates, in Lake Bluff, Ill., uncovered numerous mortgages that had been priced incorrectly when he worked in quality control at a savings and loan, and then at the Federal Savings & Loan Insurance Corp. after his company became insolvent.

Typically, auditors charge $100 or so for a loan review. Such reports range from simple audits of a client's loan rates to mortgage-insurance and escrow analysis. Richard Roll, president of Mortgage Monitor in Norwalk, Conn., says his company offers a service for refinancers that looks at both the old loan and the new one. And some loan auditors, including Loantech, in Gaithersburg, Md., and Consumer Loan Advocates, offer do-it-yourself kits for consumers who want less than a full audit.

As a last resort, there are the courts. Class actions are pending against a number of lenders, but even borrowers who are not involved in the suits may sometimes benefit. Says Henry J. Price, a partner at the Indianapolis law firm Price & Barker: "The real advantage of these lawsuits is that we've been able to do a real in-depth examination of the portfolio and correct all the errors" if a bank appears to be making the same mistakes on a series of loans.

READ THE PAPERS. The most important defense against being overcharged, however, is vigilance. Experts recommend that consumers keep tabs on market interest rates and check their mortgage-rate adjustments against the rates published in newspapers.

"The banks seem to be making more simple mistakes because they're just overwhelmed" with the volume of refinancings and mortgage applications coming their way, says Consumer Loan Advocates' Geddes. If consumers want to avoid having their ARMs twisted by overworked mortgage servicers, they need to act as their own watchdogs.

By Kelley Holland in New York

BY GENE G. MARCIAL

INTERPUBLIC MAY BE THINKING OF GOING PRIVATE

With the economy still limping along, advertising spending isn't exactly blasting off the blocks. And the recent thumbs-down attitude on the Street toward brand-name consumer products hasn't helped the advertising industry any. So when the stock of Interpublic Group, the world's second-largest ad agency, tumbled to a low of 23⅞ on July 26, concern among its many fans became quite palpable. Not a few money managers who had accumulated big stakes in Interpublic—its shares traded as high as 35 earlier this year—sought reassurance from top company executives. And reassured they were.

One investment manager was told that management would resort to a buyout of the company if the stock continued to dawdle in the low 20s. With Interpublic's strong cash flow and insiders already owning some 20% of the stock, management has the financial wherewithal and borrowing capacity to take the company private, a high-ranking Interpublic officer told this money manager. He added that management wouldn't put up with it if the stock were to go down some more.

That definitely "tended to put a floor of support under the stock," says the Wall Streeter. Since then, shares have crept up, closing at 28⅝ on Aug. 25. So far, management has purchased some 700,000 shares this year, and it's not through buying yet. One insider says management intends to purchase at least 1 million shares this year.

POWER IN NUMBERS. "Given the company's strong, predictable earnings-per-share growth rate of 12% to 15%, low debt, and share-repurchase program," Interpublic's stock could hit 42—the top of its recent 6-to-12 month trading range, figures one analyst at Neuberger & Berman, a New York investment firm. He notes that the stock usually trades at a 20% premium to the market's price-earnings multiple. Based on estimated 1994 earnings of $1.90 a share, Interpublic stock is now trading at a p-e of 14, way below the current 22 p-e of the Standard & Poor's 500-stock index.

"Most definitely the stock is cheap at its current price," says Ed Walczak, investment manager in the U. S. of

THE MODEST REBOUND AT INTERPUBLIC

DATA BRIDGE INFORMATION SYSTEMS INC

Swiss bank Vontobel. He notes that the ad industry is undergoing a consolidation because some of the giants such as Saatchi & Saatchi and WPP Group have overleveraged themselves.

Walczak believes that Interpublic is the best play in advertising because of its global reach. About 69% of 1992 revenues and 80% of earnings came from overseas. The company serves over 4,000 clients in 80 countries, including Unilever, General Motors, and Coca-Cola.

A GUSHER AT SARATOGA SPRINGS?

In the richly competitive bottled-water business dominated by Perrier Group and Evian Waters, what chance does a tiny company have? Quite a lot, especially if it's Saratoga Spring Water, a well-known name on the East Coast for over 100 years. Some investors are buying into the company, which went public in June at 5 a share and two days later sprang to 8¾. The stock is now at 7⅛, but these pros believe they have a big winner.

Saratoga is headed by Robin Prever, a 33-year-old former portfolio manager at Gabelli Asset Management, who formed a group last year to buy Saratoga from Evian Waters of France.

"I'm a Gabelli-trained value investor who knows value when I see it," says Prever, now Saratoga's President and CEO. Evian acquired Saratoga from Anheuser-Busch for $8 million in 1988, put in an additional $3 million, and then closed it down in May, 1991, when it believed the U. S. sparkling-water market had tanked. But in April, 1992, Evian, a unit of the French conglo ate BSN, sold the shuttered compan the Prever group for $2.3 million.

The free-flowing springs on the pany's property in Saratoga, N with its modern production and tling facilities, are worth $10 mil notes Prever. And this company, predicts, will dominate the $40 mi premium bottled-water market in Connecticut, New York, and New sey area in three years.

One analyst sees revenues of $4 lion in 1994 and $6 million in 1995, 1993's $3 million. After a modest this year, Saratoga will be in the b by 1994, he figures. Thereafter, e ings could explode, he says, partly cause of acquisitions Prever has l up. Mario Gabelli says he won't be prised if Saratoga becomes a big ner in the industry.

THIS WARRANTY IS STILL GOOD

Warrantech is in the unus business of providing v ranties and service contr for products whose original-manu turer warranties have expired. Pro as the business may seem, its poter is quite large, says Jonathan B president of Berg Capital, which accumulated a stake in the compan

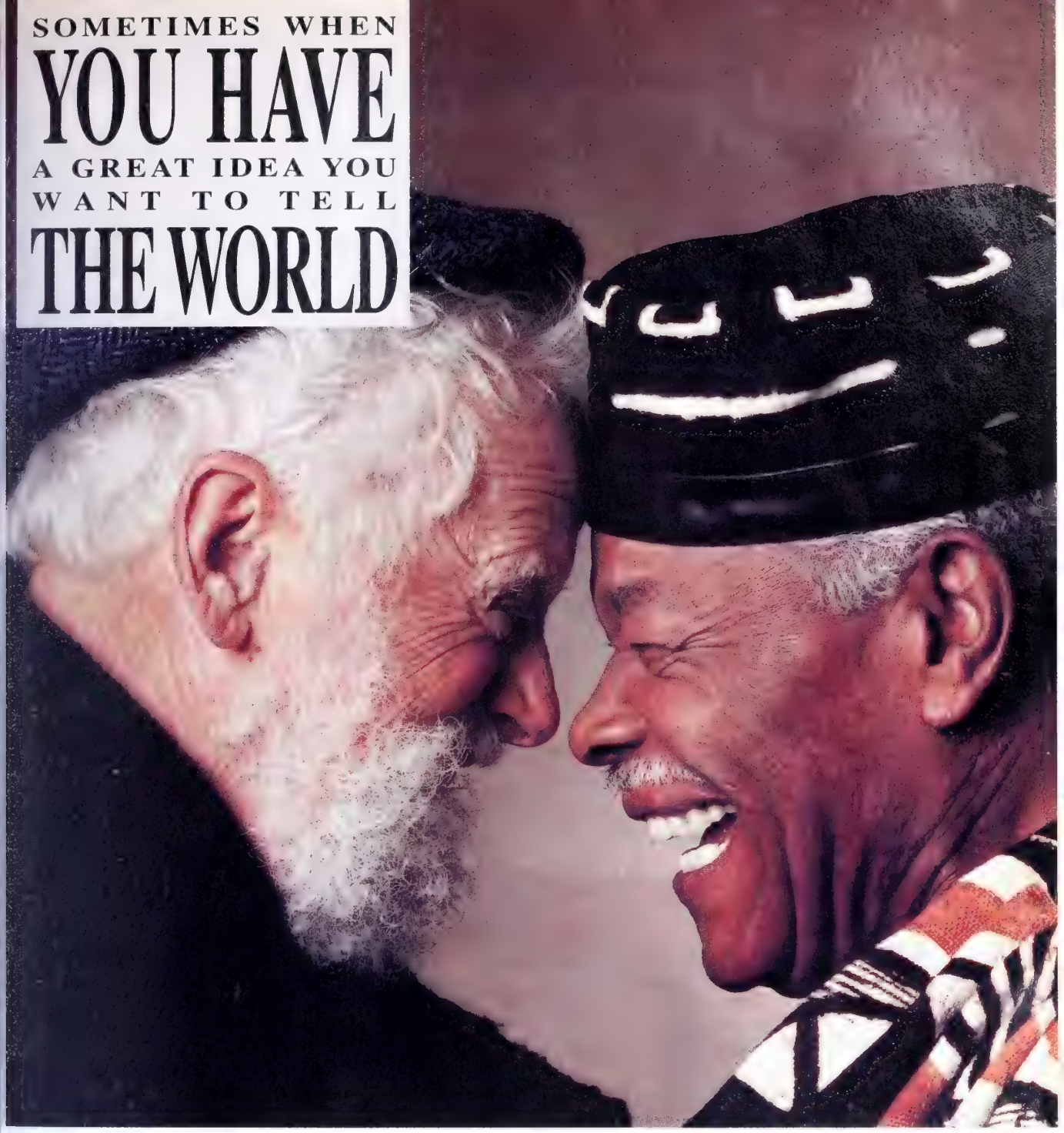
He may be right—or at least insu American International Group thi so. In late July, AIG purchased $6.4 lion of Warrantech's preferred sha convertible to a 20% stake in the c pany's common stock. Why? "War tech is a major force in its busine says analyst Richard West of S wood Research Group in New Y Warrantech markets and admini service contracts and limited-warra programs for the auto, computer, e tronics, and appliance industries.

West says Warrantech and AIG pect revenues to hit $400 million i years, vs. the estimated $54 millio the year ending June 30, 1994. W figures revenues will jump to $75 lion in fiscal 1995, when the comp should earn 50¢ to 55¢ a share, vs. estimated 16¢ in fiscal 1994.

AIG and Warrantech have a formed a joint venture in Britain ca TechMark Services to provide the sa extended warranty and service c tracts in Europe.

Warrantech's stock, now trading $3^{15}/_{16}$ a share, doesn't yet reflect vast potential the link with AIG re sents, says money manager Berg.

SOMETIMES WHEN YOU HAVE A GREAT IDEA YOU WANT TO TELL THE WORLD



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MUSIC

GRAND OLE SYMPHONY?

Staid orchestras are forced to change

MUSICIANS ON THE CSO'S BOARD

Even the Marx Brothers would be at home in Denver's Boettcher Concert Hall come September, when the Colorado Symphony Orchestra's season starts. The audience often dresses in Levis and T-shirts. Lured by ads on country-music radio stations, concertgoers sip wine and beer with musicians beforehand. After, they flood the stage to chat and ask questions: Why, for example, does the French horn player put his hand into the instrument's bell? They clap between symphonic movements—a sign of boors—and wave at the players.

These days, the musicians are waving back. "We need patrons, but we're also interested in customers and fans," explains Lee D. Yeingst, a veteran violist and vice-chairman of the CSO's board. Most of all, Yeingst and his colleagues want a future in music, and now they have one. In four years, Denver has gone from a contentious, debt-ridden orchestra to a musical cooperative with a small surplus. Ticket sales are up 50%.

These are cacophonous times for America's orchestras. Their standard product—staid performances for hushed, well-dressed patrons—no longer sells. "The old corps of subscribers is either dead or in rest homes," says Mar Walker, executive director of the bama Symphony Orchestra. You generations, uneducated in musi cause of financially strapped sch think orchestras are boring. Mino say they're elitist.

POSTLUDE. Meanwhile, expenses are ing: An American Symphony Orch League (ASOL) study of 254 gr shows costs soared 700%, to $699 mi from 1971 to 1991, while inflation 236%. With public funding and c rate contributions declining, only a orchestras run in the black. The in try's deficit jumped to $23.2 milli 1991, from $2.8 million in 1971, and t expected to hit $60 million by 200 chestras in Oakland, Orlando, Sacra to, and Birmingham, Ala., have clos declared bankruptcy, while those in falo, Cincinnati, Salt Lake City, an Diego have teetered on the brink.

Denver almost played its final too. Instead, it borrowed some bars management texts and wrote a few ones to come up with a plan that r save others, too. "They were an ins tion to us because they had the auc to do what they did," says Sueay Wood, executive director of the siana Philharmonic Orchestra, a cian-run group formed after the collapse of the New Orleans Symp Orchestra. Others are studying th to see how they can "be more effe without going through Armaged says Catherine French, ASOL presi Among them: those in Akron; Fr Calif.; Hartford; Memphis; Sacram San Diego; and Syracuse, N.Y.

Denver's problems began a d ago. As income fell, the Denver Sy

BREAKING A SOUND BARRIER

The Colorado Symphony Orchestra model may help small groups survive, but Michael J. Koss, 39, has a way to help them thrive.

Largely ignored by a recording industry interested in volume sales, second-tier orchestras find it hard to crack the national and international music scene. That spelled opportunity to the chief executive of Milwaukee's Koss Corp., whose $32 million in sales makes it No. 1 in stereo headphones. Why not make compact disks of regional orchestras playing underrecorded music? They could win critical radio airplay and higher profiles for the orchestras. Says Joan H. Squires, the Milwaukee Symphony Orchestra's executive director: "It is a terrific opportunity to let people know of our quality."

Since 1989, Koss has released 16 Koss Classics CDs by orchestras in Milwaukee, Indianapolis, and Grand Rapids. Six CDs are in the works, and Koss hopes to sign up 10 more orchestras. The CDs focus on such pieces as Saint-Saëns' first symphony and on such living American composers as David Ott. And they have won critical acclaim as well as distribution in big music chains.

ENTHUSIASM. The CDs do help. When the Indianapolis Symphony Orchestra made a European tour in 1987, it was virtually unknown there, says President Robert C. Jones. This spring, "we found great enthusiasm. Book were lucrative and readily availab

The collaboration isn't a big mo maker. Each CD must sell 10,000 c to break even. Koss, which picks most of the costs, took in just $120 from the CDs for the year to June More important is the recent lic ing of its name to Holland's Hage er, which is rolling out stereos, b boxes, and other products in N America. Royalties, plus sales fr line of computer speakers, helped profits up threefold, to million, and Koss's s from $2.50 to $15. That formance doesn't quite s fy Koss, though: He helping orchestras sta business, too.

By Lois Therri Chicago

KOSS: LOCAL HERO

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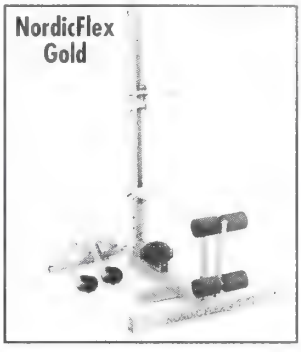

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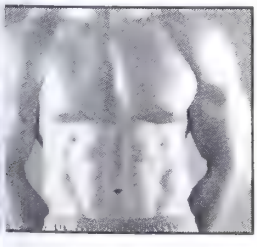
Hydraulic cylinder resistance system	✓YES Adjusts to your personal resistance level with a simple twist of a dial.	✗NO Uses rubber bands which must be changed to vary resistance level.	✗NO Uses complicated cord/pulley/mechanical resistance system.
Full refund of return freight if unit returned	✓YES If not satisfied, we will refund your cost, shipping/handling charges, and all return freight!	✗NO You pay over $85 to return. It must go by truck to Oregon!	✗NO You pay about $65 to return by UPS.
Payable in installments	✓YES 9 easy installments of just $36.56! ($49.00 S/H added to first installment.)	✓YES, **BUT...**You pay $39 per month for the next *2 YEARS!*	✓YES, **BUT...** At 4 payments of $250, each installment is almost as much as the total cost of a **HEALTHMAX**!



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ny Assn., the CSO's predecessor, borrowed and dipped into advance ticket revenues to pay its bills. "It's easy to say: 'Next year will be better—all we have to do is ride it out,'" says James L. Copenhaver, a retired Honeywell Inc. executive brought in as CSO executive director in 1990. By 1989, the orchestra was $5 million in debt, and management tried to cut musicians' pay by two-thirds. But they walked out and signed with a local promoter to do a concert series. That fall, the DSA filed for Chapter 11.

Because the musicians weren't very successful on their own, though, they agreed to work with symphony trustees to form a new orchestra with tight fiscal controls. The new CSO works on a cash basis and can't borrow or operate at a deficit. Money from advance ticket sales is escrowed until each concert. Staff was cut by two-thirds, to 13, and musicians took a 25% pay cut. Another key to success is the CSO's cooperative structure. The 75-member DSA board, studded with pillars of Denver's Establishment, was scrapped for a 27-member body that includes nine musicians elected by colleagues. With them in on pay talks, "there's a modulating effect from the musicians," says Copenhaver.

YOUNG BLOOD. The new structure draws players into promotional and fund-raising activities. They help make programming decisions, with an eye to broadening the CSO's appeal. Last year, they suggested teaming up with a local dance troupe to perform *Carmina Burana*, a 1937 symphony based on medieval themes, which sold out. And they proposed Casual Classics—weekend programs to introduce newcomers to classical music—and take part in more schools programs and preconcert minilectures.

Last spring, the musicians picked Marin Alsop, 37, the music director of the Long Island Philharmonic, as the CSO's first principal conductor. She had been a guest conductor at their invitation and had undergone a grilling by the players—a process so unnerving to one European candidate that he withdrew.

A few sour notes remain. Despite a 9% raise in 1991, salaries are low. With only a small endowment, the CSO depends on ticket sales. That will be considered when the players help pick a successor to Copenhaver, who is retiring.

Still, the orchestra's future seems secure. Even Denver's old guard, which might have been offended by its new persona, is delighted with its revival. Like the horn player who puts his hand in the bell to modulate the tone, the CSO has discovered that control produces the sweetest sounds. With any luck, those notes will resound throughout America's many other troubled performing arts centers.

By Sandra D. Atchison in Denver

AMERICAN TELEPHONE & MULTIMEDIA?

It aims to send digitized video over cable and phone lines

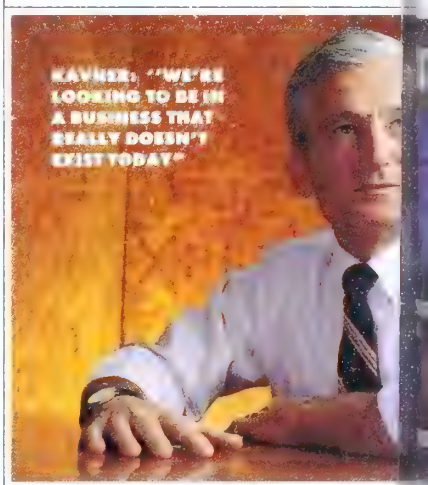
It seems hardly a week goes by that Robert M. Kavner, AT&T's executive in charge of multimedia, isn't announcing an investment in some startup. Some of these, such as the stake in EO Inc., are aimed at creating new hardware to accommodate advanced communications. Others, such as the investment in Sierra Network, are designed to introduce the phone company to new markets, such as computer games.

Some of these investments may pay off handsomely one day, but none is likely to alter the future of the $65 billion telecommunications giant. In fact, these deals are just the trimmings around the edges. American Telephone & Telegraph Co. has much bigger plans for its role in the digital multimedia future—that promised nirvana in which vast libraries of movies, games, educational software, and other information will be available at the touch of a remote-control button in the nation's living rooms.

CREATIVE TOUCH. Under a scheme it has never before discussed publicly, AT&T says it is exploring plans to build what could be a clearinghouse for the Information Age. Kavner, an executive vice-president, says the company is studying plans to build a network of digital storage devices around the country. These giant computers, which likely would come from AT&T's NCR Corp. subsidiary, would store movies, television shows, and the information needed to run shopping channels—in other words, all sorts of programming that has been turned into computer code. This programming would be distributed over AT&T's nationwide long-distance network and, through connections to cable-TV companies and local phone systems, to homes, Kavner says.

But AT&T wants to do more than just store and send sequels to *Jurassic Park*. It wants to help movie studios, retailers, educators, and others develop programming that takes advantage of the new interactive network—for example, by helping them create interactive game channels. It also wants to use its computers to handle customer billing and divvy up royalties and other fees for "content" owners and local distributors. And it's working with software co nies, which Kavner declines to iden to design a screen format to select i active services from a TV. In eff AT&T would be a wholesale supplier service bureau for the two-way v systems planned by cable and p operators.

Kavner calls it the "missing indus in the development of the digital "We're looking to be in a business really doesn't exist today: helping t who own content—titles—convert to ital and distribute to their custo



through networks," he says. Kavner the concept "hosting." AT&T acts as navigator as these oceans of digital make their way to homes and office should be a very good business," he

How good? Kavner won't say. W more, he concedes, the scheme many obstacles and has not gotten the drawing-board phase, even th he has been discussing it with majo dustry players, including Hollyw premier dealmaker, Creative Ar Agency Inc. Chief Michael S. Ovitz. proposal could be shot down, for e ple, if programming providers su Hollywood studios don't go along the cable-TV or local phone comp decide to form a similar service. Kavner expects there will be cor ing video systems. But if AT&T ca it off, the plan could dramatically b the traffic over the company's n

Local phone outfits pose stiff competition: Bell Atlantic won a court ruling allowing it to package and sell programs

network—and revenues along with nd secure its place in the race to l an information superhighway. he AT&T scheme just might suit ca- companies, figures Berge Ayvazian, nalyst at Yankee Group, a telecom- ications consulting firm. He says e cable operators are leery about sting millions to develop their own outer "servers" and advanced switch- systems to store and distribute dig- programming. AT&T's system also ld mesh with a video network ned by Teleport Communications ip Inc., a data networking company ed by cable operators, Ayvazian . Teleport plans to link cable compa- within metropolitan areas, allowing n to share digital programming s. AT&T's system could plug into port's networks, he says.

AND RUNNING." Kavner's plan also be a good way to get entertain- t programmers to accelerate their e into the digital age, says Edward orowitz, senior vice-president at Vi- n International Inc., which owns ca- systems and programming, includ- MTV. "Right now, servers are plug into and get reams of data out of Kavner's digital storehouses.

One thing Kavner says he won't do is compete with customers on content. For example, he dismisses speculation that AT&T is shopping for a movie studio. The seeming exception, his investment in Sierra, was made to create a market for video games played over phone lines. "We're better off serving content people as a customer," he says.

Even if AT&T decides now to go ahead with its plan, it could be years before it gets rolling. One big problem: The phone giant has no control over the "retail" side of the equation—selling services to consumers via local phone companies and cable operators. It may take many years and many billions to upgrade their systems to handle interactive video. Beefing up the long-distance network with server computers may be the simple part. Notes Jerry Taylor, president of MCI Communications Corp.'s consumer division: "The challenge is getting into the home."

RIVAL ROUNDUP. Then there are the potential competitors. Microsoft Corp., for one, is in talks with cable-TV operators about forming a joint venture called CableSoft, which would devise software to control the set-top boxes for interactive TV. IBM is another potential challenger. It tried to set up a distribution system for digital programming a few years ago, but talks with Tele-Communications Inc. (TCI), Time Warner Inc., and others fell through. Still, that doesn't mean that Big Blue, which has the skills and equipment needed to digitize, store, and distribute content, has given up.

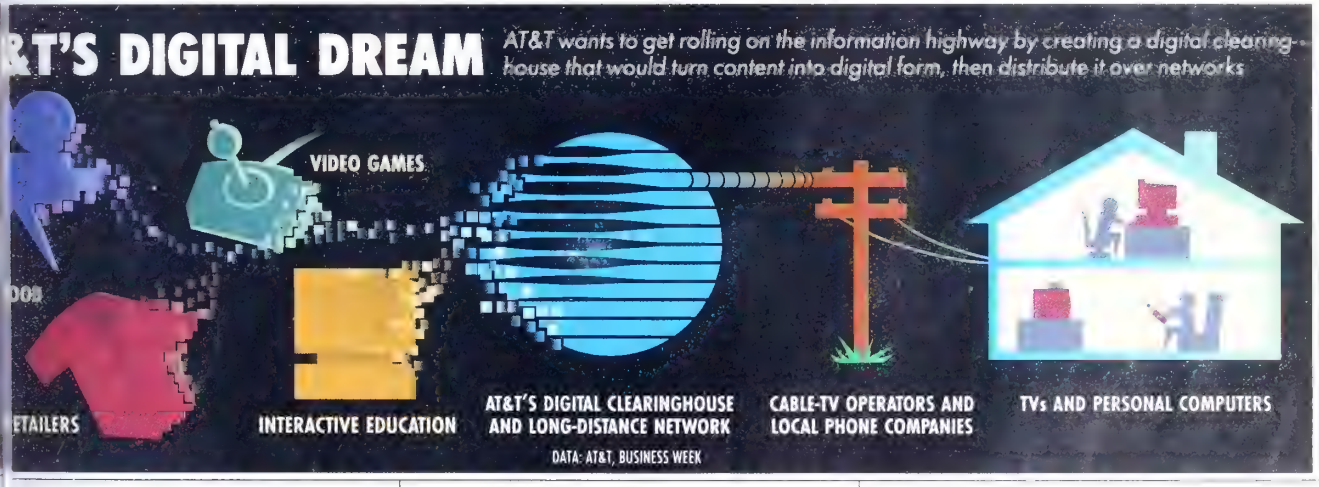
Local phone companies have big video plans of their own. One of them, Bell Atlantic Corp., won an important court ruling on Aug. 24 that allows it to package and sell video programming. A U. S. District Court found unconstitutional the provision of the 1984 federal cable law that bans Baby Bells from the video-programming business in their telephone-service areas. If the ruling is upheld, Bell Atlantic plans to offer video programming over both its own regional phone network and via cable and phone companies outside its region. Meanwhile, AT&T's long-distance competitors, chiefly MCI and Sprint Corp., are also capable of adding video servers to their networks. "If MCI took $100 million and bought 100 servers, what would the AT&T edge be?" asks one cable industry executive. MCI's Taylor says the company is considering video services, while Sprint declines to comment.

But AT&T is not going into this new business blindly. It already has begun testing interactive video delivery with cable operators Viacom, TCI, and Time Warner, and it also plans to beef up the ImagiNation Network in order to give it a taste of the "content-hosting" business.

Kavner says AT&T has one big advantage over most potential competitors: It is a relatively neutral party. It doesn't control much content, as do cable companies and Microsoft. And it doesn't control local distribution, as do the cable and local-phone companies. AT&T is using this neutrality to act as a broker: "We're talking to everybody who has content," says Douglas M. Dunn, an AT&T vice-president helping Kavner carry out the scheme.

Kavner says AT&T's plan could be just what is needed to jump-start the information highway. "Will it be one deal at a time, which is what's going on today, or do some of the more significant players need to stand up?" he asks. Clearly, AT&T is willing to stand up—and be counted.

By Bart Ziegler in Basking Ridge, N. J.



COMPUTERS

THERE'S NO PLACE LIKE HOME. JUST ASK PC MAKERS

They're aiming a host of new products at the booming market

SELLING PRESARIOS: COMPAQ IS TAKING AIM AT FIRST-TIME COMPUTER BUYERS

Ever since a Charlie Chaplin look-alike first peddled IBM's personal computer to TV viewers, PC makers have sought a magic formula that would turn computers into the next great home appliance. A decade later, no single variant of the PCs used in schools and offices has clicked with consumers the way VCRs and CD players have. But a significant if ill-defined market has emerged: students, technogeeks, white-collar workers burning the midnight oil, and millions of other Americans have ushered PCs into their homes.

Now, PC makers can't afford to skip the home market. Last year, 27% of all PCs sold in the U.S. went into homes. By 1996, the figure will be 42%, says researcher Channel Marketing Corp. The portion consumed by big businesses—historically the strongest PC market—will shrink from 30% to just 16%. The home market "will drive the industry for the rest of the decade," says Channel Marketing President David M. Goldstein.

ALL IN ONE. The last one into the pool, Compaq Computer Corp., is now trying to make the biggest splash. Last year, the Houston-based PC maker pulled out of a nosedive by slashing costs and marketing new low-priced models to corporate and small-business buyers. Some low-cost ProLinea PCs went to consumers via mass merchandisers such as Circuit City Stores Inc. But now Compaq is taking aim at the novice buyers that IBM (with its PS/1 line), Packard-Bell Electronics, and Apple Computer have been reaching for several years. With sales through such stores rising 25% annually, "the time is right," says Senior Vice-President Ross Cooley.

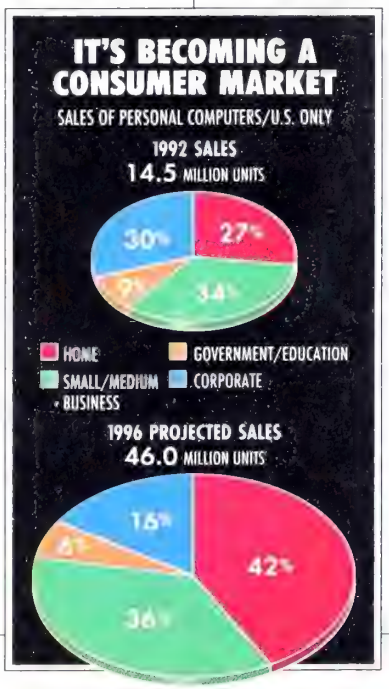
Introduced on Aug. 26, Compaq's Presario PCs include software aimed at neophyte PC users, including a word processor, games, and Quicken, a popular personal-finance manager. What's more, each Presario will come with a special fax modem that not only allows access to on-line services such as Prodigy but will let the PC double as a telephone answering machine. An "all-in-one" Presario, combining the monitor and electronics in a single box, similar to Apple's early Macintoshes, starts at $1,400, while a more traditional-looking version, sans monitor, will sell for about $100 less. Similarly powered PCs available for as little as $1,000, but C paq is betting that first-time buyers willing to pay more for Compaq's na service, and easy-to-use features.

To make the Compaq name be known, the company is hiking its vertising budget by 50% in the sec half of 1993. The pre-Christmas-sea advertising campaign will include company's first television commer since 1988 and print ads in consu magazines such as *Sports Illustrated Working Woman*. "It'll be hard to us in the fourth quarter," says Co Andrew Bose, vice-president of ma researcher Link Resources Corp., ures Compaq could double its shar the consumer market, to over 15%.

VARIETY. But Compaq risks repea mistakes made by other PC compa IBM, for example, wound up beefin its PS/1 line because "We found the consumer is even more technol conscious than the business user," Jim Keenan, director of consu brands for IBM. And says Dennis J. director and general manager of Consumer Products Group: "Ther nothing [in the Presario line] that killer product."

Indeed, PC makers, such as IBM, and Apple say what's needed is a r of products—everything from PCs first-timers to low-budget version the most powerful machines sold to nesses. IBM's new Ambra Computer sidiary now sells low-cost, high-pow PCs via an 800 number—just like Computer and Gateway 2000. And plans a raft of new PS/1s this fall. PC makers are betting on multime PCs incorporating CD-ROM players. has new models with CD-ROM drives. Packard-Bell says tually all of its sumer PCs will CD-ROM by next y Apple, which ruled the home Apple IIs, is No. 2 in the ma according to Link sources. It could retake the lead. ple says 91% o low-end Perfo are sold to consu and it is planning er new models fo fall selling sea Like everybody in the PC indu Apple wants t home for Christ

By Peter Bur in Dallas, with bu reports



DATA: CHANNEL MARKETING CORP.

) BY RUTH COXETER

IS LAB IN A BOX CAN TELL)CTANE MEASURES UP

When a car engine pings, it's often a sign that it needs higher-octane gasoline. But how do you tell if you're getting the octane you're paying for? Until recently, only a lab could tell—through an elaborate, hour-long process that compresses gasoline until it ignites without a spark. The intensity of the explosion determines the octane level.

w, PetroSpec Inc. in Newton, Mass., has developed a ble way to measure octane. Its $15,000, lunchbox-size de- ouses a spectrometer that analyzes light passing through ple to measure the amount of gasoline, alcohol, and ad- s it contains. A computer chip then calculates octane lev- he device is simple enough for gas-station owners and mer watchdogs to do their own double-checks.

ART' SHIPPING THAT KEEPS)DUCE FRESH FOR WEEKS

culent Georgia peaches can boost a soldier's morale, ut at great expense: The military has long flown fresh and vegetables to remote bases, since the food would rot g cheaper ocean voyages. Not any more. American Pres- Lines in Oakland, Calif., in collaboration with research- the University of California at Davis, has developed mi- ocessor-controlled, refrigerated shipping containers that ely regulate levels of oxygen, nitrogen, and other atmo- ic gases to maintain a mix that keeps produce fresh eeks. The containers can also scrub the air of the ethy- given off by apples and other produce that can, for exam- eave spots on lettuce and make carrots bitter.

January, the Defense Dept. began shipping produce via ican President to Guam. Next, it plans sea shipments to , Korea, and Okinawa—for an annual saving of $6 million million, says Navy Lieutenant Commander James Ker- Meanwhile, American President is working with re- hers to develop containers that keep oxygen levels low gh to suffocate insects without damaging produce. These containers could help boost produce shipments to coun- that want to avoid importing foreign insects.

FDA WILL LET FOODMAKERS TCH THEIR OWN POTS

work of an FDA inspector is by nature imprecise. It in- olves crawling through every part of a food-processing looking for such telltale signs as rodent droppings—a hit ss proposition. Now, to boost consumer confidence in food , the Food & Drug Administration is planning to adopt e accurate way to inspect and regulate plants.

e agency wants to make companies identify critical steps ir production lines, such as points where food is cooked. the companies will have to continually monitor each crit- ical point, making sure, for instance, that temperatures are high enough to kill dangerous bacteria. A soup plant "might have 20 critical points," says a top FDA official. "If a company keeps checking them, they will never have a problem." Rather than prowling production lines, FDA inspectors will examine the raw data—and the systems for collecting it.

The agency expects to have regulations for seafood companies by this fall, with rules for other producers to follow later. In general, the few companies that already use the new Hazard Analysis Critical Control Point system are pleased. "We applaud the FDA for seeking to update its regulations and implement modern, scientifically based safety systems," says James R. Kirk, senior vice-president of Campbell Soup Co.

FINALLY, A WAY TO RECYCLE ALL THAT TONER-TINGED TRASH

Office automation was supposed to cut the use of paper, but the proliferation of copiers, faxes, and printers is generating mountains of it—all impregnated with toner, the powdered resin that's seared onto copied pages. Most recycling processes can't remove toner, so they yield poor-quality paper. Now, Japan's Ricoh Co. thinks it has the answer: an erasing technology that turns the printed page into plain paper.

Ricoh's approach basically reverses the electrophotographic printing process. First, a chemical loosens the toner. Then, heat and pressure applied with a roller lift the toner from the paper. Presto! Instant plain paper. Ricoh says the same sheet can be recycled many times—and that the eraser unit can fit into a regular copy machine. That means you can load a used piece of paper into the machine and make a new copy in one pass. Before long, Ricoh hopes to market the technology, which boasts about 30 patents. But first, it will have to speed up the system, which as yet can handle only three sheets per minute.

HOW TINY BEEPERS ARE BEEFING UP CAMPUS SECURITY

Graveyard shifts, deserted parking lots, and college dorms make personal security a big issue for companies, hospitals, and schools. To fight crime in these places, an Ocean (N. J.) company, Secure System Inc., is pushing a way to summon help with the press of a button. A student, for instance, sounds an alarm using a radio transmitter the size of a key chain, which tells a computer within 1.8 seconds where the person is and pinpoints the location on an electronic map—down to the exact room. If the caller moves, the system keeps track. A keystroke by a security guard pulls up a photo and description of the person—hair and eye color, medical history—which can be faxed to patrol cars. The system even looks out for its own, constantly testing each sensor to guard against malfunction or vandalism.

Last April, the University of Massachusetts Medical Center at Worcester bought a Secure System after a one-month test. A system for a 6,000-student school might cost around $800,000, but the company will install it free if it's allowed to charge rent for each handheld alarm—about $75 per semester.

HAS PHILIPS FOUND ITS WIZARD?

Frank Carrubba, with unprecedented authority, is making gains

On a sunny Saturday in California two years ago, Frank P. Carrubba and his wife, Pat, were discussing plans to retire to Italy. Then the phone rang. Twice before, a headhunter had called to recruit Carrubba, director of Hewlett-Packard Co.'s research labs, to Dutch giant Philips Electronics. This time, it was Philips Chairman Jan Timmer himself. "I want you, and I'm going to get you, so let's talk," he cajoled.

Timmer persisted for good reason. Philips was in chaos, having lost $2.2 billion in 1990. The company's vaunted innovation engine, which had pioneered the audio cassette, the compact disk, and the VCR, badly needed an overhaul. Too often, Philips made the wrong products—or delivered the right ones too late or overpriced. Research and product development weren't coordinated, so rich technology was going unexploited. Manufacturing was out of the decision-making loop. And after surviving 70,000 layoffs, few employees were willing to risk their careers by pushing for unconventional products or ways of working. Yet without radical change, Philips faced a bleak future of slashing prices deeper and deeper to hang on against fierce Asian and U. S. competition.

QUICK JUMP. Pressed to depart from business as usual, Timmer made Carrubba a once-in-a-lifetime offer: Take command of every link in the product chain, from research to purchasing to manufacturing. Rally the troops. And fix the whole thing. Such responsibility is rarely given to one individual, especially in a $31 billion company with 40 businesses running the gamut from electric shavers to medical scanning instruments. Carrubba jumped. "It's the last blast of my career," he says.

And how. Today, the 56-year-old Carrubba is working alongside Timmer on the most daunting reengineering plan in Philips' 102-year history. Timmer is beginning to wrestle Philips' short-term finances under control. In the second quarter, net income before extraordinary gains jumped 48%, to $62 million. Though that's a return on sales of less than 1%, progress in cutting debt and restoring profits is buying time for Carrubba to stoke up the innovation machine and restore long-term prosperity. Carrubba must keep profits flowing from low-margin commodities such as basic TVs and light bulbs, feeding into them new technology where possible. Simultaneously, he must lead Philips into futuristic products and services, ranging from interactive, multimedia TV to computerized lighting control systems.

For Philips' inbred, mostly Dutch management to give an American one of its top five posts may have been a measure of its distress. But it also reflected Carrubba's reputation for technical prowess and team-building management style. The son of a draftsman who emigrated from Italy, Carrubba grew up in a working-class section of Waterbury, Conn. He went to night school for his electronics and management degrees while working at IBM, where he became a star computer engineer.

SOME OF CARRUBBA'S CHALLENGES—AND SOLUTIONS

Barriers between R&D and product groups and factories have kept the right products from reaching market on time

▶ *All now coordinate their efforts on 5-year product plans*

Skills for creating high-value, software-rich products and services have been depleted by asset sales

▶ *Formed cross-divisional task forces to develop products and businesses*

Cut of 30% in R&D staff has weakened internal research

▶ *Has arranged R&D contracts with universities such as MIT*

Internal R&D was inefficient—fragmented and open-ended in scope

▶ *Has established R&D milestones tied to broad corporate strategies*

DATA: PHILIPS ELECTRONICS

At Hewlett-Packard, Carrubba known as an "agent for change," his boss there, research Vice-Presi Joel S. Birnbaum. Carrubba insta rigorous project-tracking measures brought units together to generate products such as handheld comput "He has a very good intuition for w technologies will in the end work recalls Birnbaum. "He can survey scene and pick out the winners."

Carrubba is also remembered fo signing "town squares" in labs, lou where researchers could mingle and solve one another's dilemmas. He the idea from the parks in Waterl where ethnically mixed neighbors gregated to hash out difficulties. In contrary to the brash, eat-'em-up agement style often expected of Ar cans, Carrubba comes across as a human manager, "charming and dis ing people, sometimes by letting see his frustration," says a senior ning manager at Philips. "People Carrubba—not like him, love him."

BIG GAPS. Carrubba's skills will Philips avoid mistakes in calcula technical challenges and market mands. Take high-definition TV. early this year, Philips doggedly pu an analog-transmission standard HDTV that was being rendered obs by American-developed digital tech gy—even though the threat from di had been spelled out in a repor Philips' own labs as early as 1990.

When Carrubba arrived, he f gaps between products in planning the technologies they required. Fo stance, Philips had invested heavi its Digital Compact Cassette (DCC) b considering the feasibility of a cr

ponent, the magnetic head that s both digital and analog tapes. The cost far more to develop than ex- ed, complicating Philips' battle ıst Sony Corp.'s MiniDisc.

avoid such snafus, Carrubba has lled a "roadmap" process throughout ps, forcing divisions to coordinate year product plans with the labs factories. Such concurrent engineer- though common in the U. S. and Ja- remains rare in Europe. "Finally, ave a tool to discuss long-range vi- in a rational way," says Teun Swa- urg, a senior research director.

ıe sign that Carrubba is on the track is Philips' herculean effort ıt-panel displays. Philips plans to its first screens in September, after than a decade of R&D. The roughly million project is the first outside n to make thin, liquid-crystal dis- for handheld TVs and other mass- et products. Philips has tightly co- ated European and U. S. research, up advance orders from in-house ıct divisions, and honed a low-cost ıction process. "Outside of the Jap- e, Philips has done its homework r than anyone," says Lawrence Tan- an Orange (Calif.) consultant.

DICAP. It could take nearly 10 years 're the company knows if Carrub- efforts will pay off. He himself notes only about 37% of Philips' revenue s from products introduced in the three years, vs. 72% at HP when he At that rate, profits from new prod- probably generate only about 60% ıe money that Philips is plowing R&D, calculates Michael McGrath, ıging partner of Pittiglio Rabin & McGrath, a Weston (Mass.)

product-development consultant. That's below average for electronics systems companies, though statistics are fuzzy because of differences between companies. And McGrath says improving the ratio is never easy: "The [industry's] record of success is low."

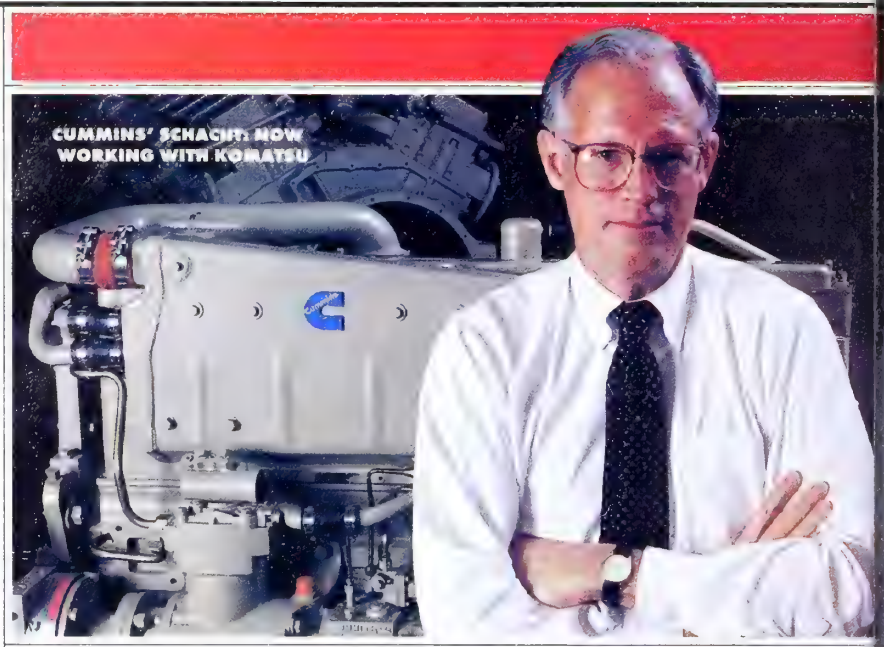
It doesn't help that Carrubba is starting off with a big handicap. In jettisoning divisions to raise money in recent years, the company lost vital software skills. Particularly harmful were the 1991 sales of its computer division to Digital Equipment Corp. and of its military electronics unit to France's Thomson. Those units' software wizards could have helped develop the products Philips is counting on for the future. For example, the company is working on new TV designs that change features on the fly. Want a four-way split screen to watch football games next Sunday? Just dial it up from a remote data base with a Philips-made touchpad controller and receive a bill in the mail.

Philips sees huge revenue opportunities in such services. Yet aside from Carrubba, "maybe only two or three of Philips' top 100 executives really understand [the required software]," says Feye Meijer, Philips' managing director for research coordination. With 30 years of computer systems expertise at HP and IBM, Carrubba is one of the few advocates for new software and services who has the credibility and management authority to lend them support. In fact, Carrubba personally heads a task force to spread software knowhow through the company. He's also trying to infuse miniaturization skills by setting up a training and prototype center for ultracompact products.

TINY TRIUMPH. In hopes of spurring big-think projects, Carrubba recently set up a committee of top division executives to screen ideas. In the past, new projects were sometimes choked off by lower-level managers worried about tight budgets or concerned with protecting existing product lines. For instance, a new business in automated lighting controls was stalled for two years by conflicts between the lighting and semiconductor units. The chipmakers, concerned about their own bottom line, held back investments in critical circuits because they feared that the new products wouldn't succeed. After the new-business committee intervened, the lighting unit answered the chip unit's concerns and the stalemate was broken.

That's a tiny triumph amid Carrubba's many challenges. But if he can get the rest of Philips to follow suit, he can start thinking again about that retirement home in Tuscany.

By Jonathan B. Levine in Eindhoven, Netherlands, with Robert D. Hof in San Francisco and bureau reports



TRUCKS

THE RISING RUMBLE OF AMERICAN DIESELS

Their clean-air technology is starting to sell well overseas

For nearly forever, it seems, U. S. makers of diesel truck engines have tried in vain to break into international markets. Even the $2 billion-plus they've invested since 1983 to meet U. S. pollution control standards couldn't round up foreign orders for the cleanest-burning engines in the world. Until now.

In just seven months Cummins Engine, Caterpillar, and Detroit Diesel, the U. S. Big Three, have begun to make inroads overseas. Cummins has forged joint ventures to build midsize diesel engines for India's Telco and for Japanese rival Komatsu. Caterpillar moved into Russia through a joint venture with truckmaker Amo Zil. Detroit Diesel is forging closer links to German giant Mercedes-Benz. And these deals, say U. S. engine makers, could be only a start. The combined diesel truck engine markets of Japan and Europe are double the size of the $3 billion U. S. market. "The opportunity to leverage what we have developed is finally beginning to unfold," says Caterpillar Engine Div. Vice-President Richard L. Thompson.

If he's right, the key will be new pollution laws overseas that match the ones U. S. engine makers have already struggled to meet at home. To comply with rules in Europe and Japan, engines m emit less of two pollutants: smog-caus nitrogen oxides and particulates such carbon. In the U. S., these impurit had to be cut by more than half fr 1985 to 1991, with more reductions due. By decade's end, particulates m be cut by 80% from the 1985 levels nitrogen oxides by 67%. U. S. mak will hit the targets even as they bo mileage—by up to 20%—using electr fuel injection and other technologies

SHORT TRUCE. That leaves the ball w truckmakers in Asia and Europe. T usually build their own engines and sist working closely with U. S. riv "We must develop European techn gy to meet European standards," s Michael Schittler, Mercedes-Benz se vice-president for commercial engine velopment. Still, overseas producers a hard reality. Tightening emission r ulations mean "you can't be in this b ness long-term without mounting the search effort we did," says Cumm Chief Executive Henry B. Schacht.

So the Europeans have started sorting with the enemy. Mercedes led a 1991 deal with Detroit Diesel to de op fuel systems that will help the man company meet late-1990s emiss standards. The effort is partly based

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the electronic fuel system used in Detroit Diesel's Series 60 heavy-duty truck engine, which already meets 1994 U.S. emission standards and helped the company turn a $10.5 million profit last year, vs. 1991's $5.2 million loss. Similarly, Sweden's Scania tied up with Cummins last year to develop a fuel system.

Both partnerships are seen as precursors of wider-ranging pacts. "The Americans have positioned themselves nicely," says Ladenburg, Thalmann & Co. analyst Frank Prezelski. Ironically, the products of the alliances may show up in the U.S. first. Mercedes and Detroit Diesel—which has pushed its U.S. market share from 4% in 1988 to 26% last year—are teaming up on an engine for small heavy-duty trucks to be sold in North America. Detroit Diesel is starting to build that model, initially for use only in trucks made by Mercedes and its wholly-owned Freightliner Corp.

So far, the overseas deals seem to bear out the decision by the U.S. companies a decade ago to diversify. To lessen their dependence on the erratic market for 18-wheelers, U.S. producers, particularly Cummins, expanded into mid-range engines. These, it turns out, are easily reconfigured to fit into short-haul trucks and construction machinery in Asia or Europe. In March, Cummins—which earned $67.1 million last year before special charges, after a $14 million loss in 1991—arranged a joint venture with rival Komatsu Ltd. to build up to 30,000 engines a year in Japan.

Cummins' joint venture with India's Telco also involves the so-called B-series engines. Cummins will operate the factory, due to start production in 1995, and the venture is expected to reach its peak revenue, $200 million er in the decade. Cummins has si similar deals in China, Russia, and babwe. Then there's Mexico, the foreign market that has thrown its doors to U.S. heavy-duty truck gines. As trade between the two c tries has boomed, Mexican trucking panies have scrambled to buy tr that meet U.S. standards. S of Cummins engines in Me grew 20% in 1991 and 1992, ing boost its Latin Amer sales by 10% last year, to million.

Still, that's tiny compared the opportunity American t manufacturers spy in Japan Europe. The Komatsu Schacht hopes, is a sign of th to come. He can at least say this: fantasy U.S. engine makers had of eraging their technical superiority international leadership no longer se like a pipe dream.

By Kevin Kelly in Columbus, Ind., Karen Lowry Miller in Bonn and D Woodruff in Detroit

THE U.S. EDGE IN TRUCK ENGINES

- Advanced fuel injection
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- Lighter motors=bigger freight capacity

HOW FREIGHTLINER PUT THE PEDAL TO THE METAL

It seemed the oddest of couples: Mercedes-Benz, known for luxury cars, and Freightliner, a Portland (Ore.) maker of heavy-duty trucks. When Mercedes parent Daimler Benz bought Freightliner for $260 million in 1981, the U.S. company held only 9% of America's big-rig market and ranked seventh of eight manufacturers.

Today, Freightliner Corp. has driven to the top of the market. Its revenues, $2.25 billion last year, are expected to jump 31% this year. That's part of a broader industry trend. Heavy-truck sales are up 36% in 1993. Freightliner has added second and third shifts at its four plants in the U.S. and Canada. And in July, CEO James L. Hebe announced plans to expand capacity 25%, to 60,000 units, by late 1995.

GRUDGING RESPECT. Other makers of heavy trucks grumble that the company used its German parent's deep pockets to buy market share during the recession. But Freightliner has won grudging respect, too. "They're often the first to introduce new components, like new axles and brake systems," says Neil A. Springer, formerly a senior executive at truckmaker Navistar International Inc.

Hebe, who joined Freightliner from rival Kenworth in 1989, gets much of the credit. Starting as head of sales and marketing, he aggressively courted the biggest and fastest-growing trucking companies. During the recession, orders were few and discounting was rampant. But Freightliner—which had decided to aim for the premium end of the market with rigs costing $60,000 or more—picked up share. "At a time when a lot of companies were maintaining the status quo, Freightliner introduced significant product improvements," explains William F. Riley III, executive vice-president of Swift Transportation Co. in Phoenix, which has bought more than 2,000 Freightliner trucks since 1990.

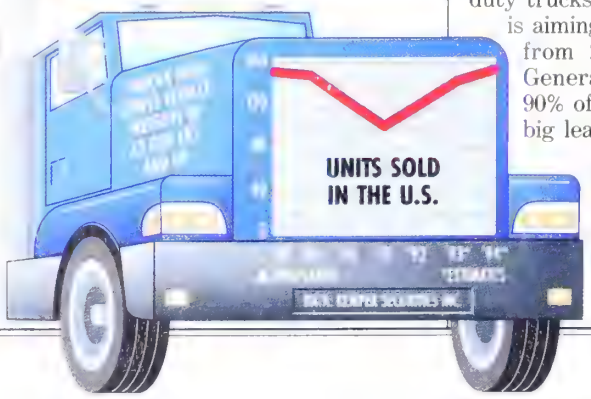
What attracted Swift most was a popular Freightliner design: a unit combining a cab and a two-bunk sleeper, with a raised roof for extra headroom. Freightliner was the first make electronically controlled engir and antilock brakes standard. And claims to have superior aerodynam because of its access to Mercede Benz's full-scale wind tunnel.

SEMI SIDELINE. To lure new custome Freightliner offered to accept trac ins, and by 1991 it had become t largest seller of used heavy-du trucks. The company also shorten delivery times, cut costs, restructur its dealer network, and introduc computer software to help dealers a fleet owners with parts cataloging, repair diagnosis, and specifications wh they order a truck.

Freightliner's market lead—a 2 share—is thin: Navistar and Pacc have more than 21% each. Breaki away from the pack will be tough—I will finding new markets. In mediu duty trucks—$25,000 to $40,000—He is aiming for 10% market share, from 2% now. Since Navist General Motors, and Ford ov 90% of that market, cracking t big leagues could take more th a turbocharged diesel e gine. Then again, the Po land company has su prised the industry befor

By Dori Jones Yang Portland, Ore.

BIG RIGS, BIG SALES



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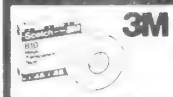

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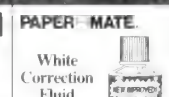

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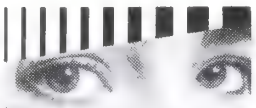

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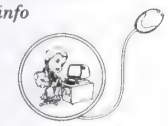

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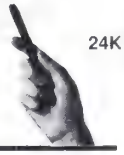

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Investing

TAKING STOCK OF NEW MUTUAL-FUND ADS

Mutual-fund companies have always had to play by strict rules when advertising their wares. But the industry is about to get a new game plan that will make advertising's role in fund sales more important than ever. For the first time, investors may be able to buy a fund simply by mailing in a coupon from a newspaper or magazine ad.

This fall, the Securities & Exchange Commission is expected to approve a proposal to allow fund companies to sell shares "off the page," or directly from ads that include a "summary prospectus." Currently, anyone interested in a fund must first request a full prospectus, a long, often cumbersome document.

Mutual-fund ads, in their current format, are like jigsaw puzzles with most of the picture in place—but a few key pieces missing. The ads usually don't spell out what kind of investor the fund is suitable for or the risks involved. And they reveal little about fees and expenses.

IMPULSE BUYING? The summary prospectus would fill in many of the holes. Investors would get a complete schedule of fees, explanation of risks, and discussion of strategy—information now found only in the full prospectus. If they still weren't satisfied, they could obtain a full prospectus by checking a box on the mail-in coupon. Proponents say summary prospectuses let investors garner key information without wading through pages upon pages.

But critics say the new ads may foster ill-considered impulse buying, especially if they employ some techniques currently used to incite investor interest. Mutual-fund ads can be misleading simply by virtue of what they choose to emphasize in headlines—such as a No. 1 ranking or a high yield. "The large print giveth, and the small print taketh away," says John Keefe of Keefe Worldwide Information Services in New York, pointing out that the explanation found at the bottom often reduces claims at the top.

It's not that mutual-fund advertising is unregulated. The SEC has strict guidelines that are enforced by the National Association of Securities Dealers (NASD). "The basic requirements to run an ad are tougher than they are for almost any other product," says L. Erick Kanter, spokesman for the Investment Company Institute, a mutual-fund trade association. For example, if a fund uses performance figures, it must show returns for 1, 5, and 10 years, and it can't use celebrity endorsements. Most companies submit ad copy to the N for review prior to p tion, and all ads must proved by regulators 10 days after they app

Still, consumer adv have been keeping a watch on fund ads late they haven't always what they've seen. Las ruary, *Morningstar Funds*, a publicatio ranks funds, ran an e entitled, "Lies, damn li fund advertisements,

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ecurities that can be be-
nvestment grade. The
mer Affairs Dept. be-
these securities qualify
nk bonds. But Dreyfus
llenging the city's defini-
says Dreyfus spokes-
n Diane Coffey. The
tment also singled out
ge in ads for Franklin's
mark II Fund and
es Schwab's One Source
program. Franklin says
t is working with the
o resolve the matter,
chwab changed the of-
g language, without ad-
mitting its ad was misleading.

Fund marketers say ad critics aren't giving investors enough credit. Fidelity Investment's research found that far from buying a fund on ads alone, buyers spend six to eight weeks tracking its performance, talking to friends, reading articles, and looking at ads before deciding. "The advertisement is just one part of the mix," says Michael Hines, Fidelity's senior vice-president for marketing. "Unless there is a typo, 99.999% of the time the ads are factual."

But that doesn't mean they are completely forthright. Even in the newly configured ads, investors should protect themselves by making sure they understand the basis of ad claims. The most misleading ads make use of fund rankings. Lipper has more than 100 categories, including different asset classes and time periods, allowing a multitude of funds to claim to be No. 1. Also, the time period highlighted may have been particularly favorable to that fund's style. A top ranking may be a sign that the fund has peaked or that its investment strategy is risky.

Investors should also make sure they understand the jargon, especially when looking at claims that a fund generates high income or has a high "current yield." The yield is the annual income the fund produces, either through interest paid on bonds or dividends paid on stocks. The total return is the income, plus any change in value of the securities held. A high yield means little if the value of the underlying securities has fallen. In general, the higher the yield, the riskier the fund. Funds promoted as high-income probably invest in junk bonds. Also, funds can play around with expense charges, temporarily absorbing some fees, to increase yield. But once fees are reinstated, the yield will fall.

The new ads will not replace the ad format currently found in newspapers and magazines, but will be added to the mix. A fund can only use an off-the-page prospectus if it has been in operation at least two years. Funds with multiple classes of shares, each with different pricing structures, cannot use the summary prospectus.

KEY NUMBER. The best way to avoid being manipulated: Don't use an ad as your sole source of information. Get the full prospectus and look at the "per-share table," which gives annual performance data for up to 10 years. Read the complete explanation of investment policies and risks. Make sure you understand how the fund distributes earnings and any tax implications. See what shareholder services the fund offers, such as check-writing or automatic investment of dividends and capital-gains distributions.

But the most important fact to glean from the prospectus is the phone number to call and request the statement of additional information, says Lipper. This document names the directors and provides more detail on fund objectives and investment restrictions. Also request the annual report or an interim report to look at the fund's holdings. When you examine the fund's portfolio, investment objective, and performance, ask yourself: "Do all three mesh?" says Lipper.

Many books, magazines, and newspapers rank mutual funds and provide objective ratings. Some helpful books include *Donoghue's Mutual Funds Almanac* ($42.95, IBC/Donoghue, 800 343-5413), *Business Week's Guide to Mutual Funds* ($14.95, McGraw-Hill, 800 2MCGRAW), and *The Individual Investor's Guide to No-Load Mutual Funds* ($24.95, American Association of Individual Investors, 312 280-0170). Then, once you've researched a fund, you can clip the ad coupon and send in your check. *Amey Stone*

HOW TO DECODE ADS

IF THE AD CLAIMS THE FUND:	ASK YOURSELF:
IS RANKED NO. 1	For what time frame? Among how many funds? Is it an apple-to-apples comparison: Is the fund measured against its true peer group or against funds it should easily outperform?
HAS A HIGH CURRENT YIELD	What is the total return? Did the fund company waive any fees to boost the yield?
IS NO-LOAD OR NO-FEE	What is the fund's expense ratio (management fees, 12b–1 fees, and other expenses)?
WILL GENERATE HIGH INCOME	What is the fund's exposure to junk bonds and other risky investments?

WHAT A SUMMARY PROSPECTUS MIGHT SHOW THIS FALL

- The fund's expenses, including management fees, 12b-1 fees, and other charges
- The amount an investor would pay in expenses on a $1,000 investment for 1, 3, 5, and 10 years
- The fund's goals and strategy, and the risks associated with the investment style
- The kinds of securities the fund could invest in—for example, might low-quality, high-yielding bonds be included in the portfolio?
- The minimum initial investment and the procedure for redeeming shares
- The type of investor the fund is designed for and how much risk that person should be able to tolerate

DATA: FIDELITY INVESTMENTS, BUSINESS WEEK

Taxes

SHELTER THE NEEDY—AND YOUR INCOME

Investors scrambling for tax shelters under the new tax law may find relief in shelter of a different sort—housing for the needy. The new law brings back the low-income housing tax credits created by the Tax Reform Act of 1986 but allowed to expire on June 30, 1992. Developers earn the credits, granted in annual allotments over 10 years, by building or renovating apartments for people of modest incomes.

Syndicators such as Arcand, Boston Capital, and Richman Group bundle the credits into partnership deals peddled to corporations and individuals, typically through major Wall Street firms. The limited partners, in turn, can use the credits to shave their income taxes; $1 in credits is worth $1 off their tax tab.

Uncle Sam straps annual limits on individual taxpayers. Most folks can only offset the "deduction equivalent" of $25,000 in ordinary income each year. So if you are in the 36% tax bracket, the maximum you can save with the credits each year is $9,000.

The Boston Capital Tax Credit Fund III limited partnership is a typical offering. You must put up at least $5,000—around $60,000 is the maximum—to earn a 10-year stream of tax breaks from low-income housing complexes owned and operated by partnerships the fund invests in. Boston Capital's objective is to provide an annual yield of 14% to 16%, averaged out over the 10-year credit period. The returns reflect the tax credits and assume you'll get back your investment after 10 to 15 years. The re shrinks to around 8% if don't recoup your investr

The investments are for everyone. You sh make sure you will hav come tax to offset, w Thomas Tracy, a partn KPMG Peat Marwick. Ur credits may be carried ward. The partnerships lack liquidity: You'll trouble bailing out in a Moreover, since the cr cannot be used to offse alternative minimum tax should compare both re and AMT liabilities before ing into a deal.

The apartments mus here to complex federal lations. A certain perce of rental units must be pied by tenants with in below specified levels. If erties fail to comply, the ernment can recapture tion of the credits y already taken, and tax b will be lost if there's a foreclosure. At that poin might wish you had s shelter in a tax-free m pal bond. *Edward*

Smart Money

STALKING BANKS THAT MIGHT GET SNAPPED UP

Investors who bought bank stocks two years ago can't complain. Share prices have risen steadily as the industry recovered from its crisis in the late 1980s. That rebound led many investment pros to conclude that bank stocks are now fully priced or even overvalued. So some on Wall Street are suggesting a new strategy: buy banks that are takeover candidates. Further consolidation is inevitable in banking, they argue, and potential takeover values are not yet reflected in the shares of many vulnerable stocks.

ENTREE VALUE. David Berry, research director at Keefe, Bruyette & Woods, says "spread your bets, because no one knows exactly which banks will go or when." There are lots of takeover candidates, he says, but not all are attractive because some trade at high multiples. One stock he recommends is Bank South. With $4.5 billion in assets, it could offer an out-of-town buyer entry to the huge Atlanta market, or a regional competitor a way to boost share. If sold in the next year or two, Berry figures, Bank South would likely fetch what many banks have sold for recently—2 to 2.5 times book value (table).

Berry also likes First American in Tennessee and the $13 billion Midlantic in New Jersey. Both are attractive to banks outside their regions as a way to enter strong markets, and they could garner takeover premiums of as much as 40% over recent prices.

For analyst Gerard Cassidy at Hancock Institutional Equity Services, "the important question is whether management wants to sell." One of his favorite prospects is $1.4 billion Bank-Worcester, the largest bank in one of New England's largest cities. Any number of the region's big banks might want to boost access to the Worc (Mass.) market, which l large base of blue-c workers and is underse by major banks, Ca says. What's more, the Harold Cabot, is 63, about 155,000 shares, could retire on the mi he could make from a As a savings bank, Worcester would fetch 1.5 times book, he says

Some St. Louis bank Donaldson Lufkin & Jer analyst Tom Brown's lis No. 1 pick is Magna G which is dominant in th urbs and is being ey Chicago banks. Brow likes Shawmut Natio Hartford, which is re ing from the banking but faces slow grow New England.

Investing in tak stocks can be risky sin banks you pick may r sold. So seek companie are expected to do w gardless of whether th acquired. *Geoffrey*

BANKS RIPE FOR PICKING?

Bank	Book value	Stock price (Aug. 23, 1993)	Estimated takeover value
BANKWORCESTER	$20.60	$25⅜	$32
BANK SOUTH	8.57	16¼	21
MAGNA GROUP	13.76	17½	24
MIDLANTIC	18.56	25	45
SHAWMUT	14.99	23¾	36

DATA: KEEFE, BRUYETTE & WOODS; HANCOCK INSTITUTIONAL EQUITY SERVICES; DONALDSON, LUFKIN & JENRETTE

dex to Companies

ndex gives the starting page for a story or fea- with a significant reference to a company. Most ities are indexed under their own names. anies listed only in tables are not included.

28
2
nsurance 54
omputer 80
Express 32
Home Products 20
International 74
President Lines 81
66
54
-Busch 74
mputer 23, 32, 80
Materials 66
92
hnologies 73
,78
fic Group 26
4
lew York 44, 55
th 92
rcester 92
curities (Japan) 41
ratories 20
tic 25, 78
ital 74
g Financial 58
0, 66
apital 92
r 78
Soup 81
Niagara Hotels 30
28
r 84
Marketing 80
26
Gas & Electric 32
y Stores 80
lems 66
52, 72
nce 23
rance 24
n 74
66
80
Loan
es 72, 73
s Union 72
2
arch 39
rtist Agency 78
dia 25
Engine 84
enz 86
ler 26
puter 80
esel 84

Digital Equipment 82
Dime Savings Bank of New York 72
Donaldson, Lufkin & Jenrette 92
Dow Jones 58
Dreyfus 54, 90
Dykema Gossett 44

E

EO 78
ESL 60
Evans Trading 44
Evian Waters 74

F

First Albany 50
First American 92
First Boston 44
First Commonwealth Securities 44
First Nationwide 72
Ford 66, 72, 86
Freightliner 86
Fujitsu 39

G

Gabelli Asset Management 74
Gateway 2000 80
GE Capital 26
General Dynamics 62
GM 26, 62, 74, 86
Goldman Sachs 44, 96
Goodyear 66
Grand Casinos 14

H

Hagemeyer 76
Halsey Drug 20
Hambrecht & Quist 60
Hancock Institutional Equity Services 92
Harris Bankcorp 24
Haworth 66
HBO 25
Hershey Foods 32
Hewlett-Packard 22, 82
Hilton 14
Honeywell 76
Hunton & Williams 62
HV Pharmaceutical 20
Hyatt 14

I

IBM 32, 66, 78, 80, 82
ImagiNation Network 78
Indosuez Capital 58
Intel 32
Interpublic 74
IPALCO 32

J

J.B. Hanauer 44
Jonan Denki 41

K

Kawachiya Shuhan 41
Keefe Worldwide Information 90
Keefe, Bruyette & Woods 92
Kemper Finanical 22
Kemper Securities 46
Kidder Peabody 50
Kmart 32, 41
Knight-Ridder 58
Komatsu 84
Koss 76
KPMG Peat Marwick 92

L

Ladenburg Thalmann 84
LDR International 30
LeBoeuf, Lamb, Leiby & MacRae 62
Legal Triage Services 62
Legalgard 62
Lehman Brothers 22, 44
Liberty Mutual 62
Link Resources 58, 80
Lipper Analytical Services 90
LoanChek 72
Loantech 72, 73
Lockheed 60
Loctite 66
Lotus Development 32
Lucky Stores 62

M

Magna Group 92
Marco Asesoria Economica 22
Mariner Investment Group 58
Mars 32
Matsushita Electric Industrial 41
Mattel 62
McDonald's 62
McGraw-Hill 18
MCI 78
Meadowcroft Management Group 54
Medtronic 66
Mercedes-Benz 84, 86
Merck 20, 62
Merrill Lynch 23, 44, 50, 54, 58
Microsoft 78
Miller, Canfield, Paddock & Stone 46
Mr Max 41
MMS International 18
Molex 66
Morningstar 90
Mortgage Monitor 72, 73
Motorola 32, 60, 62

N

Navistar 86
NCR 78
NEC 39
Neuberger & Berman 74
Nintendo 28
Nippon Telegraph & Telephone 66
Nissan 26

P

Paccar 86
Packard-Bell Electronics 80
Pall 66
Perkin-Elmer 66
Perrier 74
PetroSpec 81
Philipp Brothers 58
Philips Electronics 82
Pilgrim Group 90
Pittiglio Rabin Todd & McGrath 82
Procter & Gamble 23, 32
Prudential 44
PSI Resources 32
Public Financial Management 44

R

Readers Digest 10
Regional Financial Associates 23
Reuters 58
Richman Group 92
Rickel & Associates 54
Ricoh 81
Rockwell International 60
Rogers & Wells 62
Royal Bank of Canada 54

S

Saatchi & Saatchi 74
Salomon Brothers 22, 58
Sandoz Pharmaceuticals 20
Saratoga Spring Water 74
Scania 84
Sears 32
Secure System 81
Securities Data 44, 50
Sega 28
Shawmut National 92
Sherwood Research Group 74
Shiseido 41
Silicon Graphics 28
Smith New Court Securities 38
Sony 28, 82
Southwestern Bell 25
Spectrum HoloByte 28
Sprint 78
Standard & Poor's 44
Step 41
Swift Transportation 86
Sybron 66
Symbol Technologies 66

T

TCI International 78
TechMark Services 74
Telco 84
Teleport Communications Group 78
Thermo Electron 66
Thomson 82
Time Warner 25, 78
Toyota 26

U

Unilever 74
U S West 25

V

Van Kampen Merritt 54
Viacom 25, 78
Virgin Games 28
Vontobel 74

W

Walt Disney 28, 62
Warner-Lambert 20
Warrantech 74
Wasserstein Perella 58
WPP Group 74

Meet The Drivers On The Information Highways

INFORMATION HIGHWAYS
The Computerization of Business and Societ

September 22 and 23, 1993

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BUSINESS WEEK EXECUTIVE PROGRAMS. TARGETED ISSUES. TARGETED MARKET

McGraw-Hill

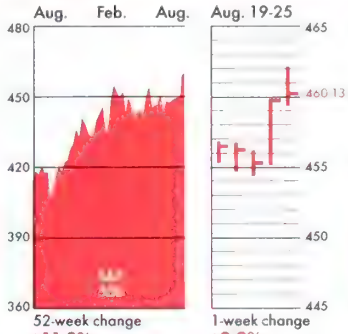
BusinessWeek
Beyond news. Intelligence

vestment Figures of the Week

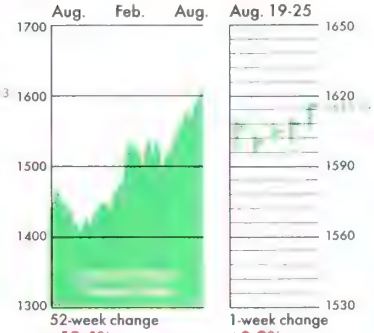
NTARY

ng week in the global fi- narkets. All the major U.S. exes climbed to record th the Dow Jones industri- ge closing on Aug. 25 at a 652. The rally was fueled ng showing in the bond where traders bet on con- sinflation. Yields of bench- year Treasuries fell to a w of 6.17%. A sobering put-call ratio, a gauge of n sentiment, dipped into rritory. It was positive the ore.

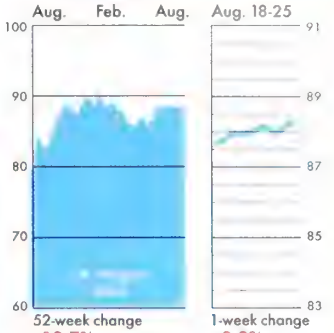
STOCKS



BONDS



THE DOLLAR



KET ANALYSIS

OCKS	Latest	% change Week	% change 52-week
IES INDUSTRIALS	3652.1	1.3	12.5
COMPANIES (S&P MidCap Index)	173.5	0.7	22.6
MPANIES (Russell 2000)	244.4	0.6	30.5
ANIES (Russell 3000)	265.6	0.8	14.5

N STOCKS	Latest	% change (local currency) Week	% change (local currency) 52-week
(FINANCIAL TIMES 100)	3079.2	0.2	34.8
IIKKEI INDEX)	20,521.5	−1.2	24.1
(TSE COMPOSITE)	4122.9	1.3	21.9

FUNDAMENTALS	Latest	Week ago	Year ago
90-DAY TREASURY BILL YIELD	3.05%	3.04%	3.22%
30-YEAR TREASURY BOND YIELD	6.17%	6.26%	7.42%
S&P 500 DIVIDEND YIELD	2.72%	2.77%	2.99%
S&P 500 PRICE/EARNINGS RATIO	23.7	23.5	24.3

TECHNICAL INDICATORS	Latest	Week ago	Reading
S&P 500 26-week moving average	447.5	446.7	Positive
Stocks above 26-week moving average	62.6%	60.0%	Neutral
Speculative sentiment: Put/call ratio	0.39	0.48	Neutral
Insider sentiment: Vickers sell/buy ratio	2.24	2.11	Neutral

STRY GROUPS

BRIDGE INFORMATION SYSTEMS INC

EEK LEADERS	% change 4-week	% change 52-week	Strongest stock in group	% change 4-week	% change 52-week	Price
FACTURED HOUSING	18.0	65.2	FLEETWOOD ENTERPRISES	21.7	76.0	23 7/8
UNICATIONS EQUIPMENT	17.3	14.5	NORTHERN TELECOM	21.3	−23.8	26 3/8
BUILDING	14.3	62.5	PULTE	23.3	55.8	37
ONDUCTORS	13.8	127.6	ADVANCED MICRO DEVICES	25.9	259.4	31
PLORATION AND PRODUCTION	11.8	11.9	ORYX ENERGY	16.5	5.7	23
EEK LAGGARDS	% change 4-week	% change 52-week	Weakest stock in group	% change 4-week	% change 52-week	Price
DISTANCE TELECOMMUNICATIONS	−6.7	45.0	AT&T	−8.1	38.9	59 3/8
ING	−4.9	−2.4	CONSOLIDATED FREIGHTWAYS	−9.7	9.8	14
CONTAINERS	−4.4	−23.8	STONE CONTAINER	−10.1	−54.7	7 3/4
MARKET AUTO PARTS	−4.0	20.6	GOODYEAR TIRE & RUBBER	−6.4	23.8	40 3/8
ERCIAL SERVICES	−3.4	−6.5	JWP	−15.4	−78.0	1 3/8

UAL FUNDS

MORNINGSTAR INC

S total return	%
ESSIVE AGGRESSIVE GROWTH	15.4
NTERNATIONAL	12.6
LOBAL	12.6

otal return	%
GROWTH	89.8
TON STRATEGIC INVESTMENTS	82.9
MIDAS GOLD SHARES	80.8

LAGGARDS

Four-week total return	%
LEXINGTON STRATEGIC INVESTMENTS	−11.2
UNITED SERVICES GOLD SHARES	−5.9
STEADMAN OCEANOGRAPHIC TECHNOLOGY	−4.7

52-week total return	%
INVESCO STRATEGIC HEALTH SCIENCES	−14.4
FIDELITY SELECT MEDICAL DELIVERY	−13.7
FIDELITY SELECT HEALTH CARE	−12.0

TIVE PORTFOLIOS

DRI/McGRAW-HILL

nounts
t the present
$10,000
one year ago
ortfolio

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otal returns

Foreign stocks	Treasury bonds	U.S. stocks	Gold	Money market fund
$13,200	$12,176	$11,489	$10,995	$10,228
−1.48%	+0.65%	+1.47%	+0.55%	+0.05%

this page are as of market close Wednesday, Aug. 25, 1993, unless otherwise indicated. ups include S&P 500 companies only; performance and share prices are as of market close Aug. 24. Mutual fund returns are as of Aug. 20. Relative portfolios are valued as of Aug. 24. A more detailed explanation of this page is available on request.

IT'S TIME FOR BANKS TO LOWER THE PRIME

Why is the bank prime rate still at 6% when short-term T-bills are approaching 3% and 30-year Treasury bonds are down to 6.17%? It isn't because the banks are worried about profits—their earnings are soaring and profits are at record levels. It isn't because of credit quality. Most banks have more than enough capital to cover past mistakes in real estate, energy, and Third World loans. It isn't because of the banks' cost of money, either. The gap between the federal funds rate and the prime has actually widened over the past two years.

The reason the prime rate remains so high is that banks do not appear to be seriously interested in making loans. While interest rates have been falling everywhere, the prime hasn't budged in more than a year. Bankers prefer to make money the easy way—on the spread between the short-term rates they pay for cash and the higher rates they receive from investing in Treasury and government-guaranteed paper. Nice work if you can get it. No risk. All gain.

This wouldn't be half so callous had not the country as a whole sacrificed to make the banks so healthy. The effect of the Federal Reserve's policy to lower interest rates, ignoring the historic spread between short-term rates and the prime, has been to bail out the banks. But banks have yet to return the favor by cutting their key lending rates.

So far, Congress and the Fed have been content to let banks avoid the risk that comes with the real business of banking—lending money to real customers. To do that, banks would have to get competitive and lower the prime to 5% to 5½%, where it probably should be, given the cost of money.

Banks say lowering the prime won't do any good because there aren't borrowers because of the weak economy. But if they cut the prime and worked at finding promising small companies in need of cash to grow, bankers might discover a lot of business. Managing risk is supposed to be what banks are all about. It's time they got back in the game.

DON'T DISCOURAGE OVERSEAS INVESTMENT

Just when it appears that the Clinton Administration has finally found the straight and narrow path down the middle, with proposals to reinvent government and reform welfare, something loopy pops out. Bubbling on low simmer is a memorandum by Labor Secretary Robert Reich to President Clinton that suggests that Washington penalize U. S. companies that invest overseas rather than at home. Reich argues that this kind of investment hurts exports and destroys well-paying jobs.

Horse hockey. The success of a new breed of U. S. manufacturer, the mini-nationals, in world markets proves just the opposite. These $200-million-to-$1-billion companies are locating engineering centers, sales and service offices, even full-fledged manufacturing in Asia, Europe, and Latin Ame
Instead of killing exports and jobs, the minis are doing
the opposite. By expanding their toeholds in impor
niches, they are generating billions of dollars' worth o
ports in components and services from the U. S. while c
ing thousands of high-quality jobs back home (page 66)

The Clinton Administration is struggling to develop
trade strategies. That will require a more sophisticate
proach than merely trying to keep each and every job
in the U. S., as Reich seems to favor. Indeed, it make
sense to hobble companies with restrictive regulations
tax penalties just for the sin of investing abroad. Such in
ment may well be justified, argues Council of Economic
visors Chairman Laura D'Andrea Tyson. We agree.
look at the success of the mini-nationals.

THE MUNI MARKET NEEDS A CLEAN SWEEP

The $1.2 trillion municipal-bond market is boom
Some 50,000 states and localities have issued 1.5 m
bonds over the years to finance everything from
ways to hospitals. Private investors buy three-quarte
this tax-exempt paper and will probably pick up more
that income-tax hikes, and retroactive ones at that,
here. These investors depend on a fair and efficient ma

That's the rub. With the huge explosion in muni
(more than $250 billion worth of tax-exempts will be so
1993 alone) have come abuses. Campaign contributions t
cal politicians by some investment bankers and lawyers
casting a shadow on the selection of muni-bond underwri
Certain politicians appear to be doling out bond busines
the basis of cash favors instead of the best bid price.

Information on the health and operations of munic
bond issuers is also hard to come by. Investors are pro
with financial data by the rating agencies when a spe
bond issue is initially sold. But there's no easy way
holders and buyers in the secondary market to get upd
information, especially for smaller, unrated issuers.

What must be done? A good first step would be more
closure of political contributions by underwriters and
bond advisers to public officials. The Municipal Secu
Rulemaking Board (MSRB), the industry's self-regulator
ganization, wants to do just that.

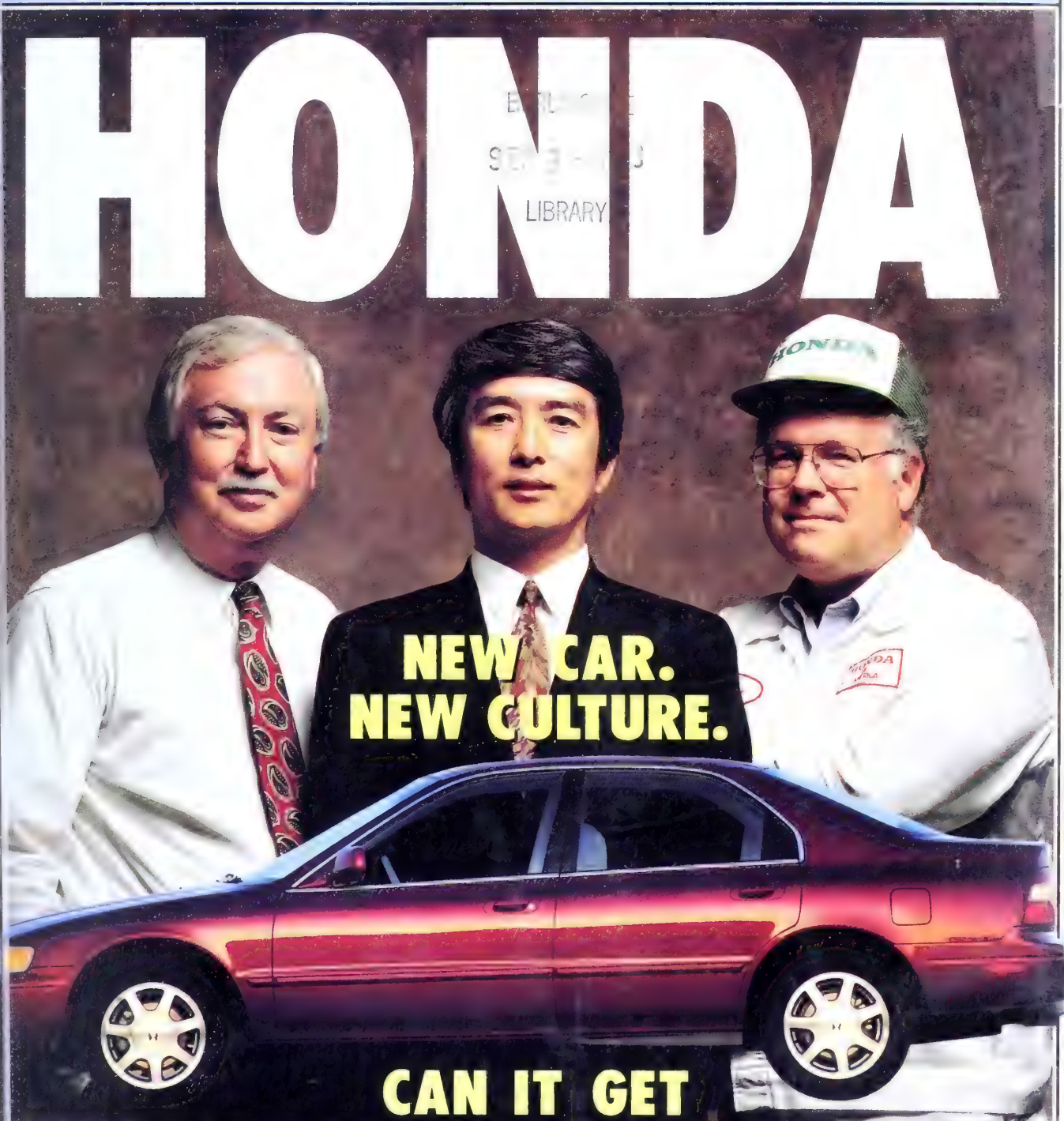
But more is needed: Ban contributions by underwrite
politicians in jurisdictions where the companies do busi
Florida adopted such a prohibition in 1991. Last Nove
industry execs, including Robert E. Rubin, then co-ch
Goldman, Sachs & Co. and now director of President
ton's National Economic Council, outlined a similar pla

Better financial information about bond issuers is a
must. States and cities should require issuers to file time
nancial statements and disclose information material to
securities in the secondary market. For millions of inve
and thousands of localities, the municipal-bond market i
the most part, reasonably safe. Still, the industry
clean up its own act. The alternative should be obv
the heavy hand of regulation.

BusinessWeek

EMBER 13, 1993 A McGRAW-HILL PUBLICATION $2.75

HONDA



CAN IT GET ON TOP?

PAGE 64

If our name
is foreign to you, maybe it's be-
cause we're building a reputation in America
on the reputations we've helped build for others.

Together with Sun Microsystems, we developed
the RISC chip that brought mainframe power to desktop
omputing. And helped make Sun the leading workstation manu-
cturer worldwide. With U.S. regional Bell operating compa-
s, we're revolutionizing commercial service by creating the world's
switching system capable of handling voice, data and video over
public network. We've built R&D and manufacturing facilities
n California to Connecticut. Building on our reputation as the
rld's second largest computer company. And creating advances
om the smallest and lightest portable pen computers to
some of the world's fastest supercomputers. We're cele-
brating 25 years well-spent. Not so much on publicity as
on products that create possibilities. So if you're
looking for our name in the future, just look
behind some of the biggest names
in America.

FUJITSU

COMPUTERS, COMMUNICATIONS, MICROELECTRONICS

Enough Room To Kee
Comfortab

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among passengers. Tha
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where you're going than yo

The Lexus GS

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NUMBER 3336

BusinessWeek

SEPTEMBER 13,

NEW CULTURE, NEW CAR . . . NEW PROFITS? HONDA'S JAPANESE AND AMERICAN ENGINEERS DELIVERED A SPORTIER AND SAFER ACCORD

Cover Story

64 A CAR IS BORN
It was America's best-selling car from 1989 to 1991. But the Honda Accord has a lot of competition today—and Honda itself is struggling. Now, the day of reckoning is here: The '94 Accord hits U.S. showrooms on Sept. 8. Will it justify President Nobuhiko Kawamoto's shakeup of the company's culture? Will it make Honda No. 1 in the U.S. again?

68 BUCKEYES IN JAPAN
How a team from Ohio helped Honda save a bundle

72 A SOLID SEDAN
The '94 Accord has plenty of power, superb handling, and comfort

ON THE COVER (from left): Thomas G. Elliott of American Honda Motor Co.; Tomoyuki Sugiyama, chief of the '94 Accord development team; Scott Whitlock of Honda of America Manufacturing Inc.

Top of the News

26 FREE-TRADE FRACAS
A reasoned debate over NAFTA's pros and cons? Think again. Now, it's jobs nightmare vs. trade bonanza

29 A MAGICAL MISERY TOUR
Taking a bus ride through the Mon Valley with NAFTA's steel-belt foes

30 A FIFTH—OR SIXTH—NETWORK?
QVC and Time Warner each envision both broadcast and cable affiliates

31 THE *DIGEST*'S TASTE FOR TV
Reader's Digest is hoping its ABC venture will revive direct-mail sales

32 PHYSICIAN, RESTRAIN THYSELF
More insurers are forcing cost caps on doctors—but will patients suffer?

34 HERBALIFE'S WONDER OFFER
Bad publicity won't help its stock

36 AMEX GOES FISHING
It's angling for a big federal contract

38 COMMENTARY
The government's faulty forecasts

42 IN BUSINESS THIS WEEK

International Business

48 JAPAN
A move toward less business regulation may be in the works

49 EUROPE
Hutchison Whampoa's Li Ka-shi beats a retreat from the West

50 CHINA
The potential market for PCs is vast—and AST leads the pack alr

53 INTERNATIONAL OUTLOOK
How business could cement the peace in Palestine

Economic Analysis

16 ECONOMIC VIEWPOINT
Dornbusch: Reform for Brazil n

20 ECONOMIC TRENDS
Low-income tax break, Eastern Europeans' optimism, Latin America, bullish exporters

23 BUSINESS OUTLOOK
Surprising spunk from new num

NAFTA, THE BRAWL: THE FIGHT OVER THE TRADE PACT IS GETTING DOWN AND DIRTY, AS BACKERS GET THEIR BACKS UP AND CRITICS OFFER SCARY SCENARIOS

102 TAKING A LESSON FROM BUSINESS: IN AN INTERVIEW, VICE-PRESIDENT GORE PROMISES THAT HIS SWEEPING PROPOSAL TO REVAMP GOVERNMENT WILL STRESS COMPETITION

50 IN ON THE GROUND FLOOR: U.S. PC MAKERS ARE FLOCKING TO CHINA, FAST BECOMING ASIA'S HOTTEST MARKET. WITH 70% OF SALES, THEY MAY BE ABLE TO MOP UP

Government

WASHINGTON OUTLOOK
The religious right saddles up a Trojan horse

WHERE TO HACK
BUSINESS WEEK's ideas for bringing Washington into the 20th century—and getting it ready for the next

A TALK WITH AL GORE
How the Vice-President is planning to modernize the federal government

Legal Affairs

BATTERED BARRISTERS
Even the legal profession's potent lobbyists won't save lawyers from a backlash of public opinion

People

AMEX'S QUIET CATALYST
Ken Chenault's ascent shakes up its elitist culture

THE TOY-COMPANY MENDER
Fisher-Price's Ronald Jackson is a master of the textbook turnaround

The Corporation

MIGRAINES FOR NME
Adding to the hospital and psychiatric chain's mounting legal woes, it now faces a criminal probe

TIMBERLAND: OUT OF THE WOODS
Fashion and improved operations put the bootmaker back on the path

Finance

80 "THE ARB BOYS" RIDE AGAIN
Legendary bond trader John Meriwether is launching a firm with some old pals from Salomon

81 UTILITIES ARE SURGING
Scared of getting zapped by the rally? Risks abound, but the runup probably has a lot of power left

82 COMMENTARY
Shortsightedness is short-circuiting Chicago's high-tech Globex network

84 DROOLING GRINGOS
Foreign banks are ready to swoop into Mexico if NAFTA is approved

59 EYES ON THE PRIZE AT AMEX: RISING EXECUTIVE KEN CHENAULT IS WORKING QUIETLY, YET FORCEFULLY, TO CHANGE A PATRICIAN, HIDEBOUND CORPORATION

86 INSIDE WALL STREET
Pushing and pulling over Rodman
Smooth razor play?
Gauges without the guesswork

109 INVESTMENT FIGURES OF THE WEEK

Science & Technology

88 COMMENTARY
What's science and what's pork

90 DEVELOPMENTS TO WATCH
Chameleon cars, flat TVs, suicidal microbes, concrete, molecule racing

Information Processing

92 UNDER THE GUN AT GATEWAY
Now the leader in mail-order PC sales, it faces rising competition

Personal Business

104 TRAVEL: Frequent-flier plans
FINANCES: Cut credit-card expenses
SMART MONEY: No-cost refinancing

Features

6 BUSINESS WEEK INDEX
7 READERS REPORT
7 CORRECTIONS & CLARIFICATIONS
14 BOOKS
Farrell: *The Myth of Male Power*
Gerson: *No Man's Land*
107 INDEX TO COMPANIES
110 EDITORIALS
Deflating the bureaucratic bloat
Big Business should fight for NAFTA

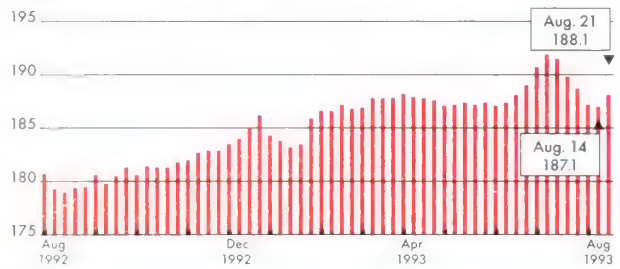
Week (ISSN 0007-7135) published weekly, except for one issue in January, by McGraw-Hill Inc. Executive, Editorial, Circulation, and Advertising Offices: 1221 Avenue of the Americas, New York, N. Y. 10020 ɔscriber rate: $46.95/year; Canada: CDN $69/year. Second-class postage paid at New York, N. Y., and at additional mailing offices. Postage paid at Montreal, P. Q. Canada Post International Publications ıduct Sales Agreement No. 246484. **Postmaster:** Send address changes to BUSINESS WEEK. P. O. Box 430, Hightstown, N. J. 08520.

BusinessWeek Index

PRODUCTION

Change from last week: 0.5%
Change from last year: 4.9%

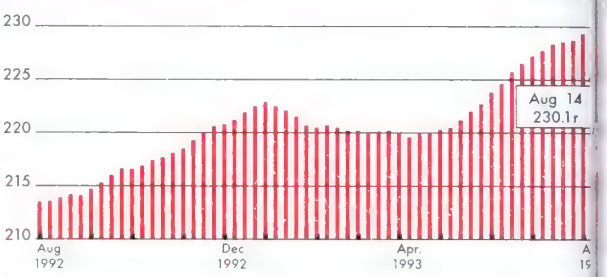
1967=100 (four-week moving average)



The production index rose during the week ended Aug. 21. On a seasonally adjusted basis, output of electricity was up strongly, and steel, paperboard, and truck production rose as well. Crude-oil refining and auto output both declined, and output levels for coal, lumber, paper, and rail-freight traffic were unchanged from the previous week. Before calculation of the four-week moving average, the index increased to 189.7, from 186.8

LEADING

Change from last week: 0.5%
Change from last year: 7.9%



The leading index was unchanged during the week ended Aug. 21, aft three-month-long runup. In the latest week, higher stock prices, lower bond yi and faster growth in M2 offset slower growth rates for materials prices and estate loans and an increase in the number of business failures. As a result, be calculation of the four-week moving average, the index fell to 231.7, from 23 the previous week.

PRODUCTION INDICATORS

	Latest week	Week ago	% Change year ago
STEEL (8/28) thous. of net tons	1,856	1,867#	13.3
AUTOS (8/28) units	112,748	94,657r#	1.3
TRUCKS (8/28) units	88,697	93,319r#	0.5
ELECTRIC POWER (8/28) millions of kilowatt-hours	70,312	69,600#	10.1
CRUDE-OIL REFINING (8/28) thous. of bbl./day	13,927	13,999#	5.1
COAL (8/21) thous. of net tons	17,987#	17,618	−10.5
PAPERBOARD (8/21) thous. of tons	815.7#	807.2r	5.3
PAPER (8/21) thous. of tons	802.0#	802.0r	4.4
LUMBER (8/21) millions of ft.	455.9#	441.3	−2.6
RAIL FREIGHT (8/21) billions of ton-miles	20.7#	20.4	−4.6

Sources: American Iron & Steel Institute, *Ward's Automotive Reports*, Edison Electric Institute, American Petroleum Institute, Energy Dept., American Paper Institute, WWPA[1], SFPA[2], Association of American Railroads

FOREIGN EXCHANGE

	Latest week	Week ago	Year ago
JAPANESE YEN (9/1)	105	105	124
GERMAN MARK (9/1)	1.66	1.69	1.41
BRITISH POUND (9/1)	1.50	1.48	1.98
FRENCH FRANC (9/1)	5.82	5.88	4.83
CANADIAN DOLLAR (9/1)	1.32	1.31	1.20
SWISS FRANC (9/1)	1.46	1.48	1.27
MEXICAN PESO (9/1)	3.120	3.120	3.101

Sources: Major New York banks. Currencies expressed in units per U.S. dollar, except for British pound expressed in dollars

PRICES

	Latest week	Week ago	% Change year ago
GOLD (9/1) $/troy oz.	369.050	371.150	8.4
STEEL SCRAP (8/31) #1 heavy, $/ton	112.50	112.50	30.8
FOODSTUFFS (8/31) index, 1967=100	211.8	210.9	6.9
COPPER (8/28) ¢/lb.	91.2	90.4	−22.1
ALUMINUM (8/28) ¢/lb	54.1	54.8	−9.7
WHEAT (8/28) #2 hard, $/bu.	3.34	3.35	−1.5
COTTON (8/28) strict low middling 1-1/16 in., ¢/lb.	52.88	52.34	−6.0

Sources: London Wednesday final setting, Chicago market, Commodity Research Bureau, *Metals Week*, Kansas City market, Memphis market

LEADING INDICATORS

	Latest week	Week ago	% Ch year
STOCK PRICES (8/27) S&P 500	459.34	452.02	
CORPORATE BOND YIELD, Aaa (8/27)	6.71%	6.79%	
INDUSTRIAL MATERIALS PRICES (8/27)	95.4	95.3	
BUSINESS FAILURES (8/20)	316	288	
REAL ESTATE LOANS (8/18) billions	$401.8	$404.3r	
MONEY SUPPLY, M2 (8/16) billions	$3,491.9	$3,483.1r	
INITIAL CLAIMS, UNEMPLOYMENT (8/14) thous.	324	331	

Sources: Standard & Poor's, Moody's, *Journal of Commerce* (index: 1980=100), Dun & street (failures of large companies), Federal Reserve Board, Labor Dept. CIBCR seasonally data on business failures and real estate loans

MONTHLY ECONOMIC INDICATORS

	Latest month	Month ago	% Ch year
PERSONAL INCOME (July) annual rate, billions	$5,368.2	$5,377.9r	
CONSUMER SPENDING (July) billions	$4,402.4	$4,382.7	
CONSTR. SPENDING (July) annual rate, billions	$458.2	$460.5r	
NEW HOME SALES (July) annual rate. thous	629	662	

Sources: Commerce Dept, Census Bureau

MONETARY INDICATORS

	Latest week	Week ago	% Ch year
MONEY SUPPLY, M1 (8/16)	$1,095.7	$1,091.5r	
BANKS' BUSINESS LOANS (8/18)	270.3	271.3	
FREE RESERVES (8/18)	326r	880r	
NONFINANCIAL COMMERCIAL PAPER (8/18)	160.2	158.0	

Sources: Federal Reserve Board (in billions, except for free reserves, which are expressed two-week period in millions)

MONEY MARKET RATES

	Latest week	Week ago	
FEDERAL FUNDS (8/31)	3.19%	2.95%	3
PRIME (9/1)	6.00	6.00	6
COMMERCIAL PAPER 3-MONTH (8/31)	3.17	3.14	3
CERTIFICATES OF DEPOSIT 3-MONTH (9/1)	3.13	3.13	3
EURODOLLAR 3-MONTH (8/27)	3.13	3.13	3

Sources: Federal Reserve Board, First Boston

#Raw data in the production indicators are seasonally adjusted in computing the BW index (chart); other components (estimated and not listed) include machinery and defense equip
1=Western Wood Products Assn. 2=Southern Forest Products Assn. 3=Free market value NA=Not available r=revised NM=Not meaningful

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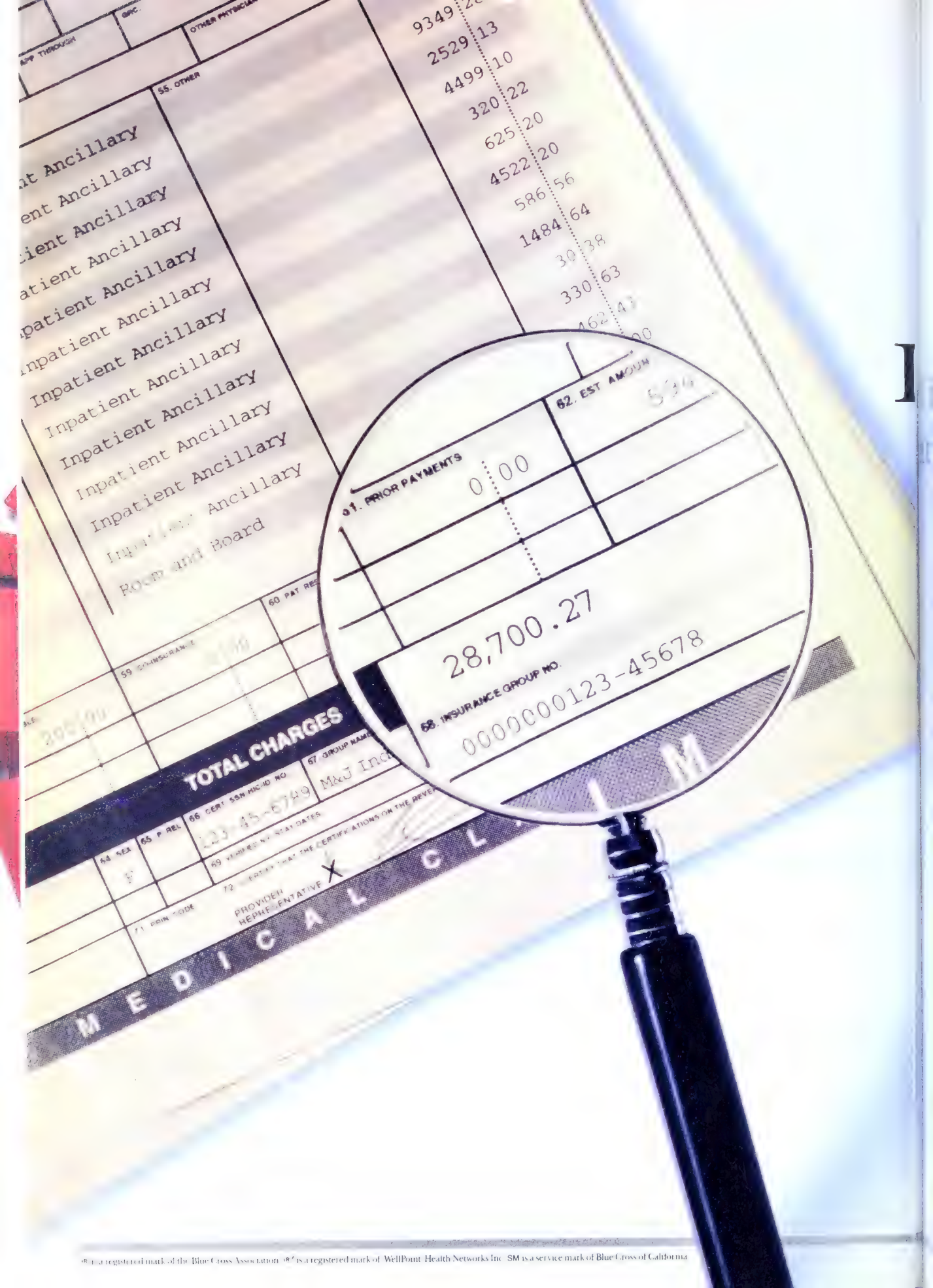

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TRUE STORY #216

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Our investigation proved enlightening. The same man who limped into his doctor's office on a crutch was videotaped running, dancing, roughhousing—and, you guessed it, pumping gas. The evidence State Fund collected not only prompted his doctor to end his disability status, it also paved the way for the worker's arrest and conviction for fraud.

Fighting workers' comp fraud isn't easy. It takes training, resources and commitment. At State Fund, we've got all three. To date, we've trained over 800 adjusters and other staff, who conduct hundreds of investigations across the state. They scout out rigged claims like the case of the derrick worker—and unearth the evidence needed to convict fraud perpetrators. If you'd like to put that kind of commitment to work for your company, call State Fund today.

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Readers Report

GEORGE SOROS HAS MOVED MORE THAN MARKETS

What a magnificent article on George Soros ("The man who moves markets," Cover Story, Aug. 23). How wonderful the world could be if all entrepreneurs had the goal Soros has: "The more money I make, the more I can give away." I hope he makes many more tons of money.

David A. Wilkinson
Marietta, Ga.

Your article, which makes readers better aware of George Soros' complex (and so far little-known) personality, also contributes to Soros' "self-revelation" efforts.

Particularly interesting is Soros' strong "nontribal" philosophy: It is encouraging that such a well-informed man should opt for believing in mankind as a whole.

Montague H. March
Geneva

Soros rightly says that we have failed to learn the economic lessons of the time between World Wars I and II.

However, that also suggests that what we need is substantial public investment—such as infrastructure work, environmental therapy, and energy restructuring—if we are going to crank up the world's almost uniformly ailing economies.

John E. Ullmann
Hempstead, N.Y.

Here is a man whose philosophy and philanthropies would anesthetize the spirit of nationalism. This is the same person who continues to make his fortune on the distinctions among nations, taking advantage of their errors and the conditions under which national economies compete.

In the age of upset business thinking and global openness, the perplexities represented by Soros' doings is worth discussion, with the outcome possibly less important than the enlightenments along the way.

Harvey Steinberg
Lawrenceville, N. J.

CORRECTIONS & CLARIFICATIONS

"The man who moves markets" (Cover Story, Aug. 23) said someone could invest in George Soros' Quantum Fund by purchasing a minimum of one share. Quantum has raised its minimum investment to five shares.

A table accompanying "Mini-nationals are making maximum impact" (The Corporation, Sept. 6) reversed statistics for Idex and Interlake Corp. Idex, a maker of fluid-handling products, had 1992 sales of $277.1 million, with 28.5% of it overseas. Interlake's sales of material-handling equipment were $708.2 million, with 48.6% of it foreign.

MIRACLE WORKERS NEED NOT APPLY

The excellent article "Why more heads will roll" (Top of the News, Aug. 23) is factual but alarming. It is alarming because this rush to bring in new executive talent from the outside seems to totally disregard the experience and knowhow of the employees, managers, and executives who have built the business and know how to operate it. If there is any short-term benefit to bringing in a "miracle worker" executive from the outside, it is far outweighed by the damage done to the internal management-development system.

Tom Potts
Houston

My eye caught the last sentence of your article. It asked: "Do IBM, Westinghouse, and Kodak need outsiders—or superheroes?" The myth that any one person can be the hero in a turnaround should have died a long time ago. While this report was obviously a very narrowly focused piece, it still supports the notion that the guy at the top can be a hero. The article does little to analyze the real reason more heads will roll.

It would appear that the main issue is not whether the superhero comes from the outside or the inside. It is whether this person has the willingness and the ability to listen, to ask, to empower,

BUSINESS WEEK
SEPTEMBER 13, 1993 * * * 3336
ISSN 0007-7135

Published weekly, except for one issue in January, by McGraw-Hill Inc. Founder: James H. McGraw (1860-1948).

Executive, Editorial, Circulation, and Advertising Offices: McGraw-Hill Building, 1221 Avenue of the Americas, New York, N.Y. 10020. Telephone: 212-512-2000. Telex: Domestic 127039; Intl. 2360127039. U.S subscription rate $46.95 per year; 2 years, $78.95; 3 years, $104.95. Single copies, $2.75; back issues, $5. Write for rates in other countries. Subscriber Services: 1-800-635-1200. TDD: 1-800-[illegible]-1579

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Merrill Lynch establishes Business Financial Services to meet the needs of small businesses.

1986

Six times over a week, Merrill Lynch broadcasts national teleconference on the Tax Reform Act of 1986 to 100,000 investors.

19

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and to enroll people in a new vis

The right leader for Kodak is the who knows that he or she must be of the team that goes out to find what the customer wants. The custo provides the new yardstick to mea performance against. Every system be redesigned to serve this stand not the old company status quo.

My suggestion is to look to small ness for the right person. They k what it's like to push against the tid make something work. Why? The been competing against the Kod Pillsburys, and Coca-Colas of the w for years. And they are succeeding.

Lorraine Ri
Se

THE BUDGET AND BOVINE GROWTH HORMONE

In "No pain, no gain on the def (Editorial, Aug. 16), you pointe my support for a moratorium on bo growth hormone (BGH) as an exa of the budget debate gone awry. N ing could be further from the truth

BGH is a genetically engineered p uct that increases milk productio dairy cattle by 10%-20% following injections. So what does this drug to do with the federal budget?

Last year, the Congressional Bu Office did an economic forecast of federal deficit impact of BGH appr during the fiscal 1994 budget year. cording to CBO, it would increase milk surplus the federal governme required to purchase, costing fe taxpayers $15 million in fiscal '94. O have estimated that in later years annual cost will rise to $225 millio

But I did not condition my sup for the President's overall progra this single issue. My support for President's economic package and support for this moratorium hav ways been two separate issues.

Senator Russell D. Feingold (D- Washi

EUROPE'S LEADERS EXERCISED 'A HEALTHY DOSE OF PRAGMATIS

I found Robert Kuttner's article, " Europe didn't take the last ste ward union" (Economic Viewpoint, 23), to be a superficial analysis of th cent turmoil in the European for currency markets. The article's premise—that Europe's leaders with the crisis in a weak manner that the outcome of events is t mount to the dissolution of the Eu an Monetary System—is suspect.

One charge that does not hol

ıide the facts: The adjustment to ystem indicates that Germany, e, and the other European coun- ıave decided to put domestic agen- efore the good of the European ıunity. On the contrary, the ıt of foreign-currency reserves by both France and Germany to ı maintain the status quo seems to be strong evidence of their de- ɔ save the EC and preserve the ess made toward monetary union. ver, despite the current economic ation, German reunification will result in improved stability and ead Europe toward its ultimate f integration.

resolving the currency turmoil, h, German, and the other Euro- central bankers and government s involved were not ineffective or out are to be commended for exer- a healthy dose of pragmatism and litik.

Mark E. Oldcorn
Boston

ERS WAS AN EARLY VOICE IST APARTHEID

ay I add a comment to your re- view (Books, Aug. 23) of Stefan r's book, *The Last Empire: De- Diamonds and the World*?

Beers and its sister company, An- merican, have long believed that ıeid was both wrong and ineffi- Rightly or wrongly, as a business, oup has chosen to speak out over ears on the business issue: that rrupt system of apartheid restrict- creation of wealth for the benefit stakeholders—shareholders, em- s, the national treasury, etc.

er decades of lobbying by busi- in which Anglo American and De- played a major part), government to eliminate job reservation in rly 1980s—a significant breach in stem.

long ago as 1974, Harry Oppen- r called for the extension of trade- rights to black South Africans, the government conceded in 1979. ers and Anglo American, the first g houses to recognize black trade s, set a recognition level remark- ow by international standards to ıte unionization.

ay, all our associated mining and rial companies are unionized.

W. J. Lear
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De Beers/Centenary
London

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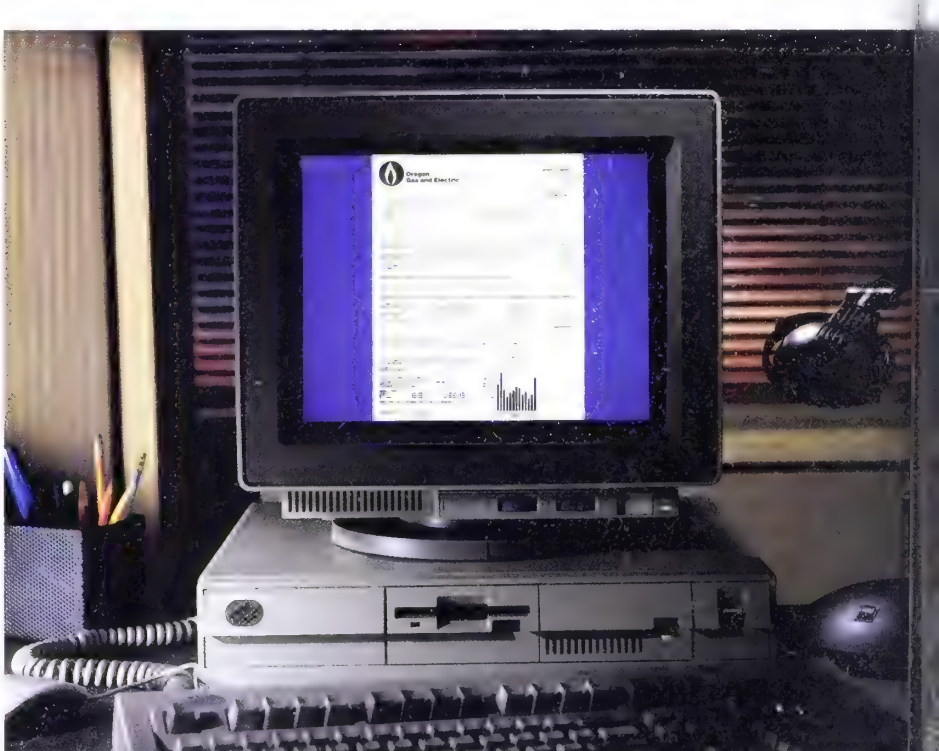

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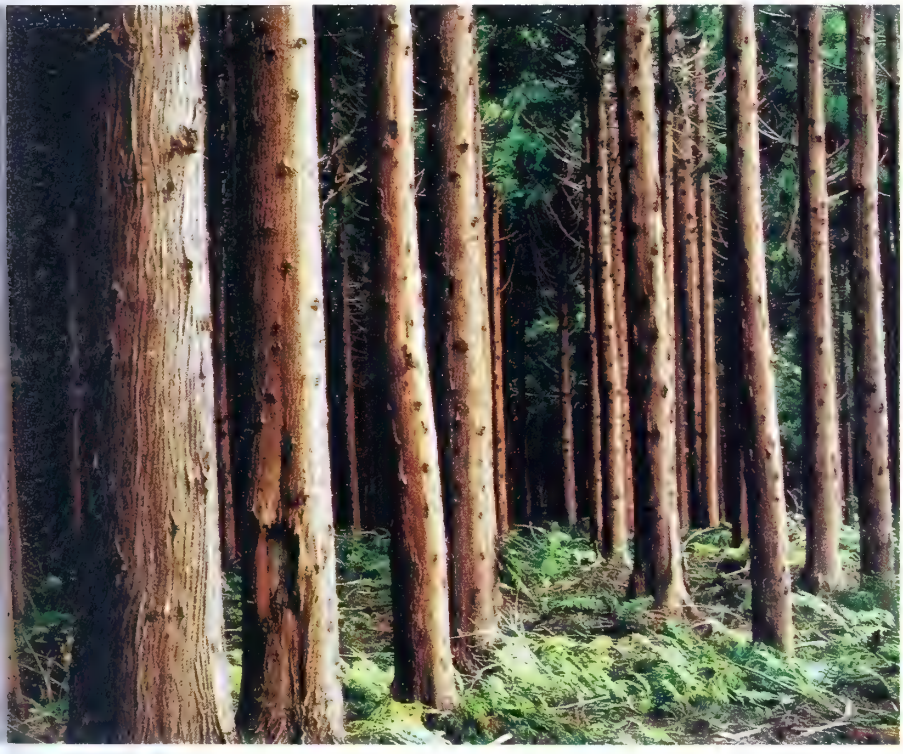

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THE MYTH OF MALE POWER
By Warren Farrell, PhD
Simon & Schuster • 446pp • $23

NO MAN'S LAND
By Kathleen Gerson
BasicBooks • 366pp • $25

WHY CAN'T A MAN BE MORE LIKE... WHAT?

"Save the Males," read the side of a coffee mug I noticed recently. A high watermark of sorts: The angst over the meaning of manhood in America has reached the point where the entire gender is the subject of an endangered-species joke.

There's no question that navigating the shoals of masculinity today is a difficult and dangerous business. But the incessant self-centeredness of many writings on the subject has been distasteful as well as counterproductive. Self-pitying grieving over personal unhappiness, searching for the "inner child," and forever questing for fulfillment is one big bellyful of narcissistic nonsense. The notions of trust, obligation, love, and the family are somehow absent in this orgy of whining.

The absolute worst offender in the men's navel-gazing contest is *The Myth of Male Power: Why Men Are the Disposable Sex*, by Warren Farrell, PhD. The California author has been in the thick of gender debates for 20 years, originally as a champion of feminism. According to his book jacket, 150,000 men and women have attended his workshops. He has been on *Donahue* eight times, no less.

In *The Myth of Male Power*, Farrell argues that men are just as victimized as women and just as deserving of a big dose of that new elixir, empowerment. Farrell demonstrates male powerlessness by pointing to the violence done to males in school sports (which he terms male child abuse), the selling of men's time and bodies to support wife and family (prostitution of males), and the draft (enslaving men in the military). Farrell concludes that "the wound that unifies all men is the wound their disposability... as soldiers, wo ers, dads." Got that, guys?

A new book by sociologist Kathl Gerson is a much more thoughtful cussion of men's roles. In *No Ma Land: Men's Changing Commitment Family and Work*, Gerson turns to nomics to explain what is happening both men and women in America. Ba on men's financial contribution to a f ily and their participation in dome work, especially child-rearing, she vides contemporary American men three groups.

The first—breadwinner—is the ol and most traditional role. The '50s n el of the family, Gerson argues, based on Dad's ability to support family single-handedly in the str postwar economy. Housework and ch rearing were Mom's province. Male i tity revolved around being provider, tector, and patriarch.

Of course, changes in the econ knocked this all to hell. As the '70s gressed, fewer and fewer men could port a family by themselves. As wo entered the work force, the balanc power within the family shifted, gender identities started to blur.

son says that two other widely ent roles have begun to replace f breadwinner. "Autonomous men" hosen to skip or flee family com- nt altogether by remaining single ting divorced and ignoring their tions. The divorce rate has soared he '50s, of course, but so has the n by men to stay single. In 1992, f all men from ages 35 to 39 had married—double the rate in 1980. the same time, a third group has l in the opposite direction, toward r involvement in family life. as breadwinners contribute 100% mily's finances and little to child- g and housework, "involved men" with their working wives both fi- l and family responsibilities. These ing Dads are especially involved in their kids. (But they still don't do housework, Gerson laments.)

son emphasizes that men may across her typology over their life- Many divorced men become deep- olved in raising the children of second marriages, for example, n they were distant from the kids f their first. Others go the other emaining single after a bitter di- With this dynamic approach, Ger- mps the prevalent cheap and easy babble about the "innate" mascu-

Two views—one an orgy of whining, the other a thoughtful discussion—of men's changing roles

line personality (testosterone equals competitiveness, drive to dominate, love of combat, and emotional distance), or male "culture" (ditto without the hormones). These constructs freeze the discussion of changing male and female roles. Gerson's approach, by emphasizing why and how roles are changing over time, has more analytical juice.

Gerson can be criticized for her limited sample—interviews with 138 lower- and upper-middle-class men from the New York area. But her book comes alive through her description of the actual men that represent each type. Gerson vividly depicts their search for redefinition of what it means to be a man.

By focusing on the evolution of men's identity and role in American society, Gerson buries the narcissism and hormonal determinism of many previous books on the "men's movement" and brings the discussion back to the real world.

BY BRUCE NUSSBAUM

Nussbaum is the editor of BUSINESS WEEK's editorial page.

ECONOMIC REFORM: JUST DO IT, BRAZIL

BY RUDI DORNBUSCH

The country is on the verge of hyperinflation, yet its leaders refuse to act. Chile, Mexico, Israel, and even Argentina have managed tough turnarounds. What is Brazil waiting for?

RUDI DORNBUSCH IS PROFESSOR OF ECONOMICS AT MASSACHUSETTS INSTITUTE OF TECHNOLOGY

Inflation stabilization and economic reform have proved a winning combination around the world. With determination and some luck, a dramatic economic improvement has almost always followed. The huge economy of Brazil is the renegade, consistently in the news with another demonstration of its decaying society. Brazil should now bite the bullet. Inaction not only will deepen the social and economic turmoil but also risks undermining Brazil's democracy.

But Brazil resists reform. "Politically impossible, the essential conditions are not satisfied," demurs Fernando Enrique Cardoso, the latest in a sequence of Finance Ministers who take office, do nothing, and leave behind an even larger mess than they started with. Nobody knows what Cardoso's magical "essential conditions" are. Elsewhere, when things were bad, many governments have screwed up their courage and plowed ahead with reforms:

- Mexico has accomplished over the past decade a radical transformation of its once-staggering economy via budget-balancing, pervasive privatization, deregulation, freer trade, stabilization of inflation to single digits, and welcoming foreign investment. Not easy, but possible. Now, workers and investors have confidence, and foreign investors lend their support.
- Chile went the same way. Following a 1983 depression, the country underwent a radical reform, with deregulation, trade liberalization, budget stabilization, privatization, and more. Over the past few years, even with the spending pressures brought about by the transition to democracy, the country has run up Asian-style growth rates in the range of 5% to 7%. Inflation remains moderate and prospects are bright. Yes, it can be done.
- Israel chose the same route in 1985, when it put an end to hyperinflation, cut the budget deficit, and set out to clean up its economy. A vast inflow of immigrants from the former Soviet Union notwithstanding, the resolve has held, growth is up, and inflation is now down to single digits. Yes, it can be done, and it can be turned into success.
- Argentina, unbelievably, has put to rest both hyperinflation and anemic growth. It used to be said of Argentina that the money was outside and the unions inside, with habits of British trade unions and Italian taxpayers. No more. Pervasive reform—from the budget to government/business relations, labor relations, inflation stabilization, and openness to trade and investment—have turned around an economy that only a few years back was on the trash heap. It can indeed be done.

Brazil, however, is on the verge of hyperinflation. Per capita income is 10% belo 1980 level, and cumulative inflation since reaches more than 50 billion percent. Th sion of society, public finance, confidenc capital clearly moves Brazil far down i world league. Parts of Brazil today a poor as Zambia. In 1980, after three deca super growth, Brazil was more impress performance and promise than any Asian Tigers. Nowadays, Brazil make news with President Fernando Collor d lo and his cronies on the way to jail (bu er quite getting there) for graft, with sive and uncontrolled violence, and deepening skepticism about its political s

FOUR-STEP PROGRAM. The leading contr for the presidency in the 1994 elections i cialist, Luis Inácio "Lula" da Silva. Of cou coup may happen before then. A co where inequality is one of the very wo the world, where people dream of a Fu style putsch to end conventional gridlo itics, must move fast or suffer much. lization is not accomplished by governments but rather by weak one "conditions" are never right. Before his s President Carlos Menem of Argentin hardly the image of a great reforme same can be said of Carlos Salinas de G in Mexico, Patricio Aylwin, who secure bilization in Chile's transition, or Shimon in Israel. For each, reform was counter al and populism a more predictable re yet each had the courage to make a go form. They all relied on capable ecc teams, who bet correctly that stabilizati reform would turn into a virtuous ci stability and growth. And they all won

Brazil is no different from any oth managed economy. To fix the mess, a step program is the answer: Rapid pri tion must signal major change. Put th companies on the table and startle the by doing something unconventional but right direction. It's the best strategy t sound public finance. Next, freeze wa prices, and the exchange rate for two m That will break inflation's back. Wag fixing rightly has a bad name, but wit inflation a month and pervasive indexi usual steps are needed. Moderate in can't be attained without step three: balancing, including tax reform and ef control of the public sector. Finally, a t antipoverty program such as Mexico's as a shock absorber and a key function new state. Such a four-part package politically viable and has a proven reco where. It's up to Brazil's leaders to why this cannot be done in their countr

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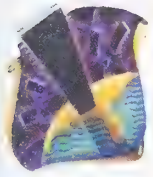

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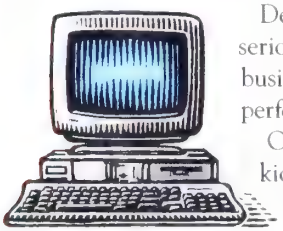

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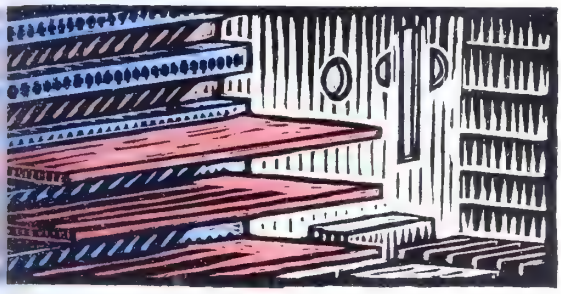

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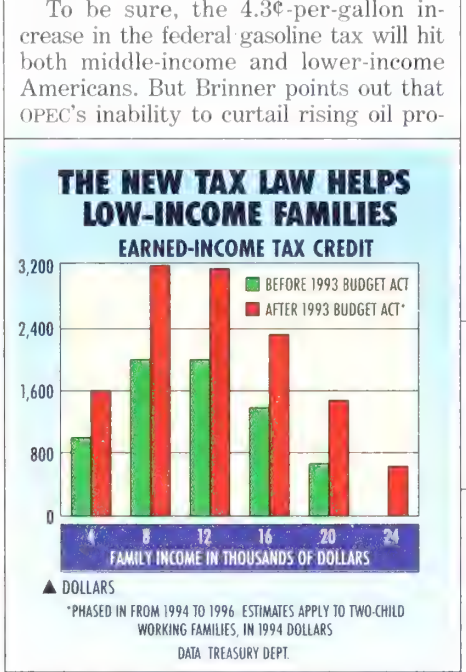
BY GENE KORETZ

SOME TAXPAYERS MAY BE IN FOR A PLEASANT SURPRISE

The widespread anxiety in Middle America regarding tax increases is largely misplaced, says Roger E. Brinner of DRI/McGraw-Hill. Although upper-income groups face a painful rise in tax rates, the economist argues that middle-income taxpayers will emerge almost unscathed. More important, "the new law will reward lower-income working families with hefty wage subsidies."

To be sure, the 4.3¢-per-gallon increase in the federal gasoline tax will hit both middle-income and lower-income Americans. But Brinner points out that OPEC's inability to curtail rising oil production by its members promises to offset the tax hike. And households that receive inflation-indexed payments such as Social Security are automatically shielded from any impact the gas tax may have on the consumer price index.



More important is the expansion of the earned-income credit. This provides income to low-wage families with children in the form of a tax credit that either offsets tax liabilities or, if no taxes are owed, is paid directly to the families.

Under previous law, the credit next year for two-child families would have been 25% of the first $7,990 of earnings, with a maximum credit of $1,998 that was progressively reduced for families with incomes ranging from $12,500 to $24,000. Under the new law, which will be phased in from 1994 to 1996, the credit amounts to 40% of the first $8,425 of earnings, has a maximum of $3,370, and isn't eliminated until income approaches $27,000.

The upshot is that by 1996, working families with incomes in the $12,000 to $16,000 range will wind up with $1,000 or more in extra income than they would have under previous law. Even a working family with $25,000 in yearly income will pick up an extra $400. And for the first time, low-wage single people and childless couples can qualify for a small credit of about $300.

What are the implications of these tax-law changes for consumer spending? Much of the $25 billion increase in upper-income taxes will come out of savings, though Brinner does think outlays for upscale goods will be crimped a bit. By contrast, virtually all of the additional $5 billion to $6 billion a year that will eventually be funneled to low-income taxpayers via the increased tax credit will fuel consumption.

Items likely to be affected negatively, according to DRI/McGraw-Hill, include luxury automobiles, fine furniture, sophisticated electronics, and pricey restaurants. In contrast, sales of basic items and minor luxuries, such as children's clothing, fast-food restaurants, premium beverages, and state lottery tickets, will be bolstered.

EASTERN EUROPEANS SUFFER NOW, BUT SEE A BRIGHTER FUTURE

Dismal economic conditions are buffeting the former communist nations of Central and Eastern Europe. Yet public opinion polls reveal that the people not only are finding ways to survive but also are sanguine about the future.

As reported in the current issue of *The American Enterprise*, most of the people surveyed last winter in 10 former Soviet satellites and republics said that current conditions are worse than they were under communism, and only a third said they earned enough from their regular jobs to survive. But with the help of other legal or illegal activities, 60% indicated that they are able to get by without borrowing or spending their savings. Indeed, an average of just 7% said they were currently unemployed.

Looking ahead, although only 15% of those surveyed expect to be satisfied with their own economic situations by 1997, most anticipate improvement. In fact, two-thirds expect their economic systems to be working satisfactorily, compared with less than 30% today. What's more, whereas just 52% of East and Central Europeans approve of their governments' performance today, some 71% expect to approve of their new political regimes five years from now.

CAPITAL INFLOWS TO LATIN AMERICA COULD TURN SLUGGISH

The conventional explanation for the recent huge surge of capital inflows to Latin America—from an average of $15 billion a year in the late 1980s to $61 billion in 1990, $40 billion in 1991, and $60 billion last year—is that they reflect vastly improved investment prospects thanks to local economic and political reforms. A recent International Monetary Fund staff paper, however, argues that renewed investment opportunities are only part of the story. Also contributing to the capital surge have been the recession in the U. S. and the resulting decline in interest rates, which encouraged investors to seek higher returns south of the border.

Such findings suggest that private capital flows to Latin American countries could wane significantly in the years ahead as economic growth and interest rates in the U. S. and its major trading partners turn higher. Once again, it opportunities in the U. S. and other industrial nations rise again, Latin nations with weak or wavering commitments to economic stabilization and reform may find that inflows of funds can quickly become outflows.

U.S. EXPORTERS STAY BULLISH—AND LOOK SOUTH FOR GROWTH

With June's 3.3% drop, merchandise exports are now up only 3.5% over last year and could be headed for negative growth. But U. S. exporters still aren't trimming their sails.

In a new Coopers & Lybrand survey of 132 fast-growing manufacturers with sales of up to $50 million, some 74% say they were more optimistic about export prospects over the next 12 months than they were three months ago. Only 2% said they were less optimistic.

A recent, more comprehensive survey of 5,000 companies by Dun & Bradstreet Corp. is similarly upbeat. Nearly 6% of exporting companies (and 68% of manufacturers that export) expect higher sales in coming months, while only 5% foresee a decline. Significantly, exporters are particularly bullish about prospects in Mexico and the rest of Latin America. "Even with ongoing weakness in Europe and Japan," says D&B economist John W. Duncan, "our survey results point to slow, steady export expansion."

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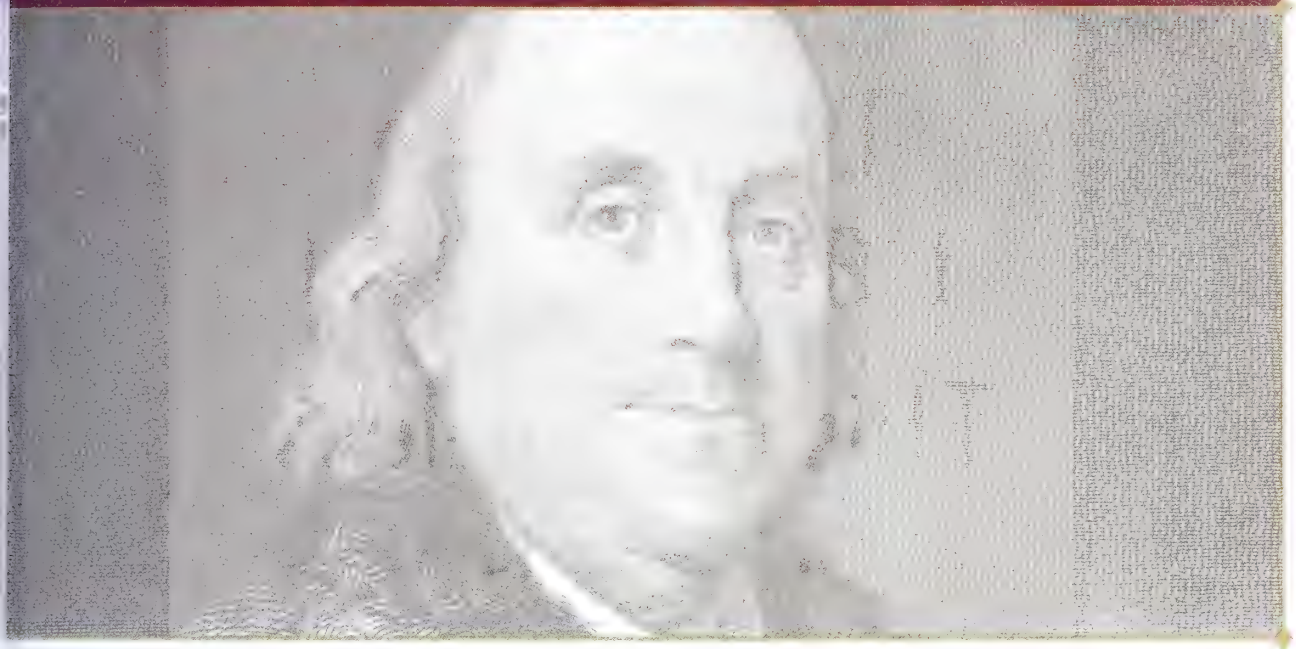

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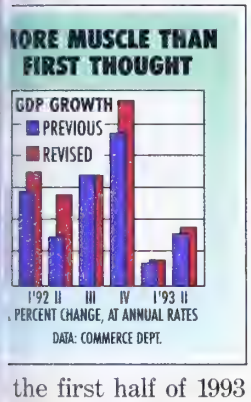
TEMBER 13, 1993

BY JAMES C. COOPER AND KATHLEEN MADIGAN

URPRISING SPUNK ROM A NEW SET OF NUMBERS

Almost everyone has wished to rewrite some part of the past: erase a social indiscretion or pick the winning numbers in last week's lottery. But tory doesn't bend easily to rewrites. Unless, of course, a work for the Commerce Dept.

About this time every year, Commerce makes a sweep- revision to the U. S. gross domestic product. This ar's update—which covers data going back to 1990—s somewhat surprising. As it turns out, the recovery, ile still slow by historical standards, shows a good al more spunk than was first thought—especially over e past year and a half.



During the past six quarters, the economy is now reported to have grown at an annual rate of 3%, up from the 2.5% pace given by the old data (chart). Growth during 1992 was a sturdy 3.9%, instead of 3.1%. And in the fourth quarter of last year, real GDP surged at an annual rate of 5.7%—the economy's strongest quarter in five years.

In that context, the slowdown the first half of 1993 becomes a lot less worrisome for e second-half outlook. The annual pace of real GDP fell f to 0.8% in the first quarter and rebounded to only 1.8% the second quarter. But during that slowdown, job owth actually accelerated and domestic demand re- ained solid. That combination is a good sign that the onomy still has enough underlying momentum to sup- ort growth of 3% to 3.5% in the second half.

AUTO CUTS COULD HOLD BACK OUTPUT

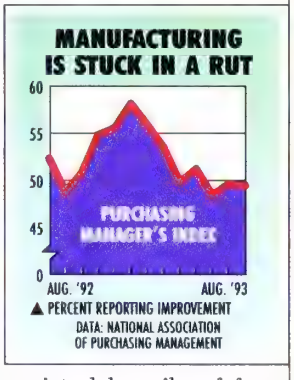
Clearly, the economy is not withering for lack of demand. Overall final sales—which include exports but not imports—grew at an annual rate of only 1.1% during the rst half. However, sales to domestic purchasers—which clude purchases of imports while excluding exports—rose 4%, more than twice as fast.

The difference is a surge of imports that caused a dra- atic widening in the trade deficit in the first half. Al- ough exports managed to keep growing, the deficit awned to $73.1 billion in the second quarter, from $59.9 illion in the first quarter and $38.8 billion in the fourth uarter of 1992. Without that subtraction from real GDP, ne economy would have grown 2.5% in the first quarter nd 2.8% in the second.

One potential trouble spot for manufacturing in the third quarter could be the upward revision to second-quarter inventory growth. After soaring by $29.3 billion in the first quarter, nonfarm inventories were first estimated to have grown only by $9 billion last quarter. The latest data now show that stock levels grew twice as much, by $17.5 billion. That faster accumulation, in addition to Detroit's recent cutbacks in planned auto output for the third quarter, could limit or even preclude a rebound in manufacturing output anytime soon.

Indeed, the factory sector continued to languish in August, according to the National Association of Purchasing Management. The NAPM's index of industrial activity edged lower in August to 49.3%, from 49.5% in July, pulled down by payroll losses. For three months now, the index has been below 50%, which is the dividing line between expansion and contraction in manufacturing (chart).

The purchasing managers did have some mildly encouraging news on orders and production: They both rose slightly in August for the second consecutive month. Also, the NAPM says that inventories continued to shrink, suggesting that factories are now getting their stock levels under control.



However, given the recent surge in imports, last quarter's inventory bulge may well have consisted heavily of foreign-made goods. To the extent that's true, cutbacks in ordering would hit overseas producers, not U. S. manufacturers. In addition, less demand for foreign-made goods would reduce the import drag on third-quarter GDP growth.

CAPITAL SPENDING REMAINS A BIG PLUS

The new Commerce numbers did nothing to alter the boom in business investment in equipment, mostly computers and other high-tech goods. Equipment purchases rose at an annual rate of 17.4% in the second quarter, after a 19.9% gain in the first quarter. During the past year and a half, growth in equipment spending alone has accounted for nearly one percentage point of the economy's 3% growth rate. That contribution is likely to continue in the second half.

One reason: Corporate profits continue to grow at a healthy clip. Operating earnings, which adjust for inventory profits and depreciation allowances, rose by $11.2 billion in the second quarter, to an annual rate of $443.3 bil-

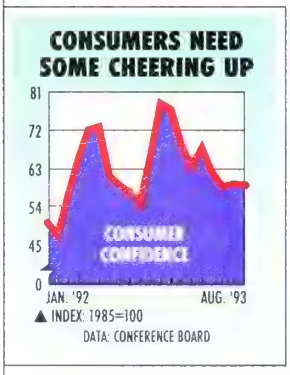
lion. That total was up 7.7% from a year ago. It would have been higher, except for IBM's huge $8 billion loss.

One important implication of the upgrade in the recovery's pace is that productivity growth during the upturn has been even greater than the solid pace already reported. That means American companies are holding down unit labor costs, making them more competitive and more profitable, even in a low-inflation environment.

CONSUMER OUTLAYS WILL STAY STRONG

Consumers also seem to be on firm footing heading into the second half. While Commerce was rewriting history, it discovered a lot more money in consumers' pockets in the second quarter.

Real aftertax income, originally reported to have risen at an annual rate of only 1.3% last quarter, is now said to have grown more than four times faster, at a 5.9% pace. That was far above the sturdy 3.2% gain in real consumer spending, suggesting that households generally are benefiting from the pickup in job growth.

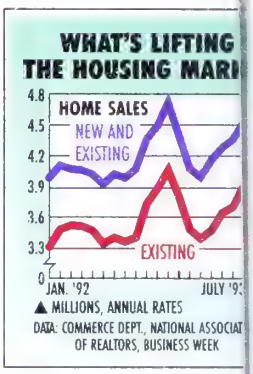


And starting off the third quarter, inflation-adjusted consumer spending rose 0.4% in July. That means outlays in the third quarter are already growing at an annual rate of 3.7% above the second-quarter level. Personal income fell 0.2% in July, but that reflected a $28.3 billion drop in farm income—mostly due to crop damage caused by the Midwest floods and the Southeast drought. Nonfarm income rose by 0.3% in July.

But despite the solid spending numbers, consumers still say they're edgy about the future. The Conference Board's index of consumer confidence stood at 59 last month, little changed from the low readings of June and July (chart). Households' assessment of the current state of the economy is improving, but worries about the futu have consumers furrowing their brows.

The major forehead-wrinkler is still jobs, reports t Board. But employment prospects seem to be impro ing. The Conference Board's index of help-wanted adv tising has been slowly increasing since early 1992. July, it rose 3.1%. And the employment survey done Manpower Inc. shows that companies will continue add modestly to payrolls.

Many consumers clearly feel confident enough to sh out for big-ticket items, including the biggest one: housi That didn't seem to be the case in July, as sales of n single-family homes fell 5%, to an annual rate of 629,0 even as mortgage rates were nearing 7%.



New homes, however, must compete with cheaper, older houses. And resales—which account for 85% of all homes sold—are strong (chart). Sales of existing homes have risen for four consecutive months, including a 5.4% gain in July, to a 3.88 million pace.

Resales don't carry the same GDP bang that sales of new homes do, because the house is already built. Still, the demand for home-related items w grow as home buying increases. Moreover, the supply unsold new homes remains skimpy by historical sta dards, and fixed mortgage rates are at a 25-year low, homebuilding may yet be a big contributor to growth the second half.

Add it all up, and the second half appears to be in pre ty good shape. Indeed, because of the Commerce revisio the argument over whether the economy is half-full half-empty has become moot. The new numbers say th the economy is more like two-thirds full—and the level rising.

THE WEEK AHEAD

INSTALLMENT CREDIT

Wednesday, Sept. 8

Consumers continue to borrow. The median forecast of economists surveyed by MMS International, a unit of McGraw-Hill Inc., projects that installment credit increased by $2.5 billion in July. That's suggested by a rise in personal loans and some strength in nonauto retail sales. The expected July increase would be on a par with advances earlier in the year, but it would be far below the $7.7 billion surge in credit in June—the largest gain in six years. Households may be borrowing at a faster clip because job prospects are looking better. Or the wave of mortgage refinancings in 1992 and 1993 may have loosened up household budgets so consumers can use their credit cards once again.

CAPITAL SPENDING

Thursday, Sept. 9, 8:30 a.m.

The Commerce Dept.'s spring survey of spending plans will probably show that businesses are still planning to increase their outlays for new plant and equipment by about 6% for 1993. Capital spending in the first half was strong, but outlay gains are expected to taper off for the rest of the year.

INITIAL UNEMPLOYMENT CLAIMS

Thursday, Sept. 9, 8:30 a.m.

New filings for state unemployment benefits probably stood at a 330,000 pace for the week ended Sept. 4. That pace would be little different from the fou week moving average of 331,500 for th week of Aug. 21. Auto plant closing had pushed up claims in July, but a be ter tone in the labor markets toda means fewer workers are being laid of

PRODUCER PRICE INDEX

Friday, Sept. 10, 8:30 a.m.

The MMS economists forecast that pr ducer prices for finished goods in Augus rose by 0.2% for all goods as well a for items excluding food and energy The total producer price index fell 0.3 in June and 0.2% in July. Excluding foo and energy, the core rate rose just 0.1 in July. Fierce competition and fallin unit labor costs in manufacturing hav reduced goods inflation sharply.

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PRO: A TRADE BONANZA

This summer has been a tough time for business backers of the North American Free Trade Agreement. Corporate America is united, and its war chest is filled. It's armed with convincing statistics showing that the trade deal with Canada and Mexico will be a boon for U. S. exports and high-paying American jobs. Yet the campaign has made little headway against the lurid warnings of opponents—from Ross Perot to Jesse Jackson—that NAFTA will cause a massive flight of U. S. jobs to a land of cheap labor and lax pollution controls.

Virtually every study supports the pro-NAFTA claims that the accord will be a net economic plus for the U. S. But business has a credibility problem. "Too many Americans see us as greedy 'suits,' and if we're selling something, it must be bad for the average guy," complains one top business lobbyist. "We can't win this by ourselves."

Help is on the way. President Clinton expects to enter the fray this month with a full-bore effort to win approval of NAFTA. Tentative plans call for the President to give a major speech on Sept. 14 and for Cabinet members to follow up with high-profile events. Clinton has asked all five former Presidents to join him at the White House for the kickoff, though aides doubt they can get all the chief executives together.

ROSS VS. LEE? NAFTA, which was negotiated by the Bush Administration, would create a free-trade zone stretching from the Yukon to the Yucatán by eliminating a broad array of tariffs and other trade barriers in Canada, the U. S., and Mexico. The pact will expire if it's not approved by Jan. 1, 1994. But even Clinton's energetic support won't guarantee passage in a Congress where most Democrats oppose the bill. So the pro-NAFTA forces are planning to add some gli—

CON: A JOBS NIGHTMARE

In the annals of strange political bedfellows, the North American Free Trade Agreement is one for the record books. It's weird enough that Bill Clinton is joining forces with his erstwhile enemies, Senate Minority Leader Bob Dole (R-Kans.) and conservative firebrand Newt Gingrich (R-Ga.), the House Minority Whip, to push NAFTA through Congress. But take a gander at the opposition: Iconoclastic Ross Perot and right-wing hard-liner Patrick J. Buchanan are walking arm-in-arm with free spirit Jerry Brown, the centrist House Majority Leader Richard A. Gephardt (D-Mo.), liberal activist Jesse Jackson, and consumer crusader Ralph Nader.

Welcome to the bizarre politics of NAFTA, where traditional party loyalties and ideological fissures have been swept away as American voters start to focus on something far more primal: America's future in the new global economy. For skilled and well-educated workers, NAFTA holds the promise of better access to a booming export market south of the border. But for millions of other U. S. wage earners, NAFTA is a Pandora's box, igniting smoldering fears of job losses, lower wages, and a sense of America losing control over its economic destiny. "NAFTA is the Rorschach test of the new economy, the perfect projection test of people's feelings about their economic future," says Cornell University political scientist Theodore J. Lowi, an expert on third-party politics.

OPPORTUNISM. The opposition is hell-bent on exploiting these fears. From the left, Nader lashes out at Clinton for trying to implement a "Reagan Wall Street agreement" that preserves a "one-party dictatorship" in Mexico. The Mexican government, he tells BUSINESS WEEK, pretends to crush social and economic

ıd some of the other side's gut ap-
ɜal—to their so-far-lackluster lobbying
'forts.

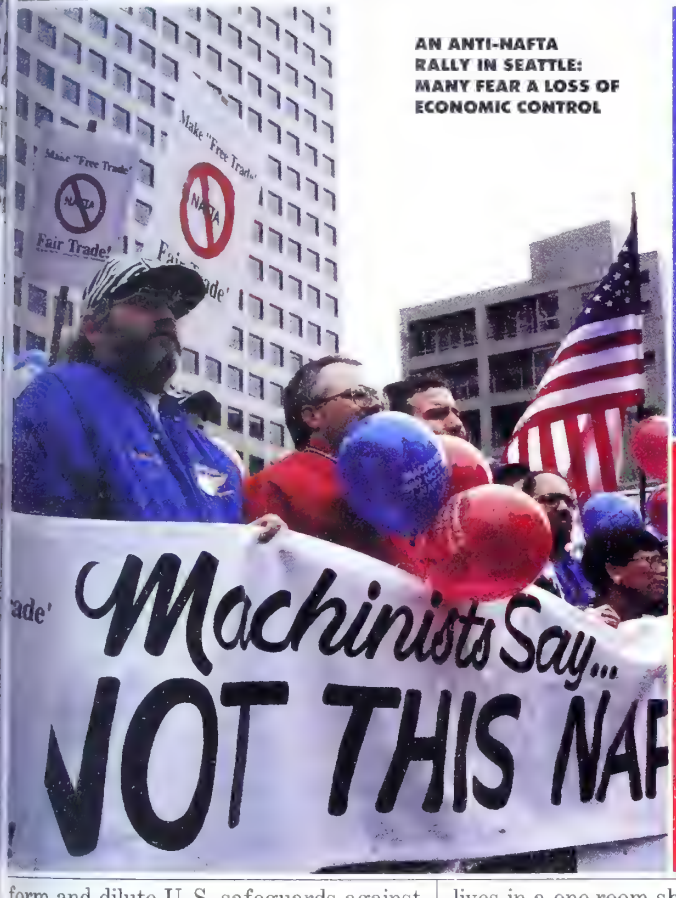
As the vote draws closer, supporters
ill air television and radio commercials.
ye-glazing statistics will give way to
ore emotional arguments a mass audi-
ıce can grasp. "The opposition has be-
ıme so public that we feel a need to do
ore publicly, too," says Kay R. Whit-
ore, the outgoing CEO of Eastman Ko-
ak Co. who heads a business coalition
ılled USA-NAFTA.

One idea being mulled, BUSINESS
EEK has learned, is enlisting retired
hrysler Corp. Chairman Lee A. Iacocca
ɔ counter Perot on the talk-show circuit,
in television commercials, and in op-ed newspaper columns. Iacocca, a certified trade hawk, may be the only business leader with the public standing—and the media skills—to go *mano a mano* with the feisty Texan.

"YESTERDAY'S IMAGE." Don't look for Chrysler director Iacocca—or anyone else with ties to the auto makers—to play a visible role in the campaign right away. Although the Big Three auto makers would be major beneficiaries of the trade accord, they're embroiled in contract talks with the United Auto Workers and don't want to antagonize the fiercely anti-NAFTA union (page 42).

But ultimately, pro-NAFTA organizers regard neutralizing Perot as critically important. He has a mass following and influence on Capitol Hill, especially among the 48 freshmen House Republicans, many of whom support NAFTA in principle but were elected with Perotnista backing. "Most NAFTA opponents, including Mr. Perot, are selling misinformation, hate, and an image of Mexico that's yesterday's image," complains James D. Robinson III, ex-CEO of American Express Co. and former co-head of USA-NAFTA.

On paper, the pro-NAFTA campaign wouldn't appear to need Iacocca's help. USA-NAFTA, a coalition formed by the Business Roundtable that includes the



AN ANTI-NAFTA RALLY IN SEATTLE: MANY FEAR A LOSS OF ECONOMIC CONTROL

THE CASE FOR NAFTA...

Big Business and government are NAFTA's big backers. Here's why:

JOBS A free-trade pact will further open Mexico's economy to the U.S. The export surge will create more than enough higher-wage jobs to offset displaced workers.

IMMIGRATION NAFTA will reduce illegal immigration to the U.S. by raising the standard of living for Mexican workers.

COMPETITIVENESS With regional trading blocs emerging in Europe and Asia, North America must compete as one. An old-fashioned "Fortress America" mentality won't cut it anymore.

FOREIGN POLICY Rejection of NAFTA would undercut the President's credibility negotiating deals with other countries.

...AND THE COALITION FIGHTING THE PACT

The anti-NAFTA crowd packs a potent message:

ROSS PEROT It's simple, see. NAFTA will accelerate the migration of greedy U.S. corporations to Mexico.

PAT BUCHANAN The spearhead of conservative opposition argues that NAFTA surrenders U.S. sovereignty.

RALPH NADER The veteran activist portrays the pact as a prop for a corrupt Mexican oligarchy.

JESSE JACKSON Low-wage workers who lose jobs because of imports will fall back to lower wages or into unemployment.

LANE KIRKLAND The AFL-CIO president fears the pact will hasten union membership declines.

form and dilute U. S. safeguards against border pollution, unsafe Mexican trucks, and inadequately inspected food.

From the right, Buchanan is trying to appeal to Main Street Republicans with charges that NAFTA is "2,000 pages of more rules and regulations" that will cede U. S. sovereignty to trinational bureaucracies and require a massive foreign aid package to bail out Mexico. And from the "radical middle," Perot has been attacking a secret pact sealed "with a great deal of help from former U. S. officials who are now working as foreign lobbyists." He adds that NAFTA will drag the American worker down to the level of the Mexican worker, "who lives in a one-room shack with no plumbing or electricity."

Although they're a disparate group on the surface, a potent theme binds the opposition. "The thread is simple," says political analyst Kevin P. Phillips. "This is the populists taking on the elitists. NAFTA unnerves the ordinary person, who sees it as giving away American jobs and sovereignty because the banks and Business Roundtable want it."

There's more than a little opportunism in all this populist fervor. As Presidential candidates in past campaigns, Perot, Buchanan, Gephardt, Brown, and Jackson all flared brightly but briefly with similar "Take it back, America" themes. Buchanan, who still harbors ambitions for the GOP nomination in 1996, makes no bones about the political gamesmanship involved. "Perot isn't just taking away our Republican constituency, he's taking away our issues now," he tells BUSINESS WEEK. "As Republicans, we have to reclaim the issue of putting America first."

FAST AND LOOSE. Whatever their motives, NAFTA's opponents clearly are tapping a vein of fear about the future that seems to be running deeply through Congress and the electorate. Optimism about the fate of the economy has sunk to the levels of the late Bush years. "Unfortunately, this is the sort of envi-

National Association of Manufacturers and the U. S. Chamber of Commerce, has signed 2,300 members, ranging from giant multinationals to trade associations to small family businesses. So far, it has raised $2 million for a lobbying campaign that was supposed to mobilize business support and dazzle Congress with impressive numbers: Mexico is the second-largest market for U. S. goods ($40.6 billion in 1992), and each Mexican on average bought more U. S. goods last year than each Japanese ($450 vs. $385). The group also argues that by eliminating Mexican tariffs on U. S. goods, NAFTA will mean a net gain of 200,000 U. S. export-related jobs by 1995.

But the flood of statistics had little punch. And USA-NAFTA's credibility wasn't helped when both Robinson and Whitmore were deposed by their boards for poor performance. "Business thought it could make an intellectual case and win on the merits, but they were wrong," says an aide to Representative Robert T. Matsui (D-Calif.), a pro-NAFTA leader in the House. "The emotional argument is more compelling."

That fact has prompted business to rethink its strategy. The lobbying coalition is raising more money to refocus its campaign on the general public through television and radio commercials, with heavy targeting on the districts of House members wavering on the issue. In addition to praising the pact, the pro-NAFTA forces will take a page from their opponents and raise the specter of horrible things to come if the deal is defeated. One possible theme: Mexico will fall into political instability and suffer a major economic slump that will send a new wave of illegal immigrants into the U. "People respond to fear a lot more than they do to economic opportunity," observes John H. Bryan, CEO of Sara Lee Corp. and an active NAFTA supporter.

President Clinton, too, will resort to emotion. Aides say he will stress the credibility of the Presidency and his ability to craft foreign agreements are at stake and that a defeat by Congress would amount to a humiliating setback.

In a better world, the fate of NAFTA would be decided by reasoned argument over the treaty's costs and benefits to the U. S. economy. But victory here may belong to the side that succeeds in scaring Congress the most. Opponents have taken charge of an increasingly emotional debate. With the campaign starting to heat up, supporters are belatedly learning that taking the high road may be more comfortable, but victory will require getting down and dirty.

By Owen Ullmann in Washington and Judith Dobrzynski in New York

PRO COMBAT READY? KODAK'S WHITMORE HEADS UP USA-NAFTA BUT NEEDS HELP FROM PRESIDENT CLINTON AND AN IACOCCA

ronment in which protectionism and sloganeering about 'the great sucking sound' replace the initiatives we need to restore economic growth," worries John Endean of the American Business Conference. Adds Wisconsin Governor Tommy G. Thompson, a GOP backer of the agreement: "We are letting the opponents have a field day."

With the vote over NAFTA looming, polls show as many Americans oppose NAFTA as support it, with almost half undecided or uninformed. But in Congress, a well-organized campaign to kill the pact is gaining strength. "It's a matter of holding what we have. We've got the votes," declares Representative Colin C. Peterson (D-Minn.), head of the House anti-NAFTA caucus. "This is an agreement between the elites of Mexico and the U. S.—the One World Government people. My constituents hate these people."

NAFTA supporters are unnerved by their opponents' glib jibes at the agreement. But their rivals do have an Achilles' heel: their propensity to play fast and loose with the details of the pact. Take charges by Nader and Buchanan that NAFTA will allow trinational commissions to supersede state and local law. NAFTA specifically says that each country, state, and city can approve health and safety laws "more stringent than any international guideline."

CON STRANGE BEDFELLOWS: CRITICS PEROT, GEPHARDT, AND BUCHANAN ARE SPLIT IDEOLOGICALLY BUT SHARE THE POPULIST GOSPEL

"DARK SIDE." Charges that NAFTA will require massive foreign aid are bunk as well, says Robert Fisher, former head of Mexican Affairs for the U. S. Trade Representative's Office. "Calling it foreign aid to clean up a 2,000-mile U. S. border with another country is a specious argument deliberately designed to make the debate irrational," he fumes.

The fear and anger at the heart of the anti-NAFTA message also could undermine it, says financial analyst Jeffrey Bell, a former Reaganite who has written extensively about populism and elitism in American politics. "The things they are saying about Mexicans, and ultimately our own people—that they can no longer compete—has a dark side to it," Bell notes. That ultimately could turn voters off.

The betting in Washington still is that Clinton can pull out a victory on NAFTA, though it may require an appeal to save his Presidency. The victory, however, could prove hollow. Unless he manages to rebut the criticism and recast the pact's image in terms average Americans can understand, NAFTA's opponents could easily paint Clinton as a friend of Big Business and the banks, rather than as a President "who puts people first." Strange bedfellows, indeed.

By Douglas Harbrecht in Washington

A MAGICAL MISERY TOUR WITH NAFTA'S STEEL-BELT FOES

The bus rolls up and down the steep hills of the Monongahela Valley. It's hot outside, thunderstorm weather, and the grey shuttered mills we're passing look like post- s from hell. A banner on the side he bus reads, "Rust Belt Tour." gical Misery Tour" would be catch- Then again, these aren't former er children putting on this tour. 're retired steelworkers.

iis bus trip was Sam Amorose's The president of the retirees' divi- of steelworkers' Local 3968 in nsburg, Pa., Amorose wanted to ilize the Pittsburgh area against North American Free Trade Agree- t. Why not give people a good look ndustrial demise, figured, then give a message: With TA, things will get worse. Amor- a spry 72-year- promptly sold the to his fellow re- l union members. suading local iocratic politicians imp aboard wasn't icult, given the mise of captive vision cameras.

'e start our trip n the closed-down eeling-Pittsburgh el Corp. mill in Mo- sen, moving north the demolished . Steel Homestead Works, and then the Ohio Valley. Just a year ago, I ked in Mexico City, covering the dican side of NAFTA. Now, such pas- iate resistance to the treaty in erica's steel belt intrigues me. Af- all, Mexican steel shipments to the . are almost negligible: They repre- t less than 3% of total imports. And was the Europeans and the Japa- e, along with quick-footed American imills, that buried the steel indus- in Pennsylvania. So why are people e so worried about the Mexicans?

AD HOGS. I sit next to Amorose and him. He replies with a smile that xicans do one hour of work, then e seven hours of siesta—a factoid aned from a day trip to Ciudad Jua- 55 years ago. It is far from true. t instead of rebutting it, I ask: nen why are you so worried about m taking American jobs?" Well, he says, even unproductive workers are a bargain at Mexican wages. Plus, "the EPA [Environmental Protection Agency] doesn't bother companies down there."

The discussion goes back and forth. If Mexico's economy grows, won't Mexicans buy more imports from this area? Perhaps, Amorose concedes, but the Mexicans won't be able to buy much with the wages they make. I try another line: Half of Mexico's 85 million people are under 19. If they don't find work in Mexico, they'll just cross over to the U. S., right? That one gets a shrug. Illegal immigration, after all, is hardly a burning issue in the Pittsburgh area.

The tour winds past miles of shuttered plants, through tattered steel towns, their wooden frame houses needing paint, the tiny front lawns parched. At each town, we step out into the stifling heat. With TV cameras in front of them, shut-down factories behind, and small local crowds in attendance, steelworkers and politicians deliver a pitch both simple and clear: We've lost a lot of jobs, and if NAFTA passes, we'll lose more.

RETIRED STEELWORKERS SAY, IF YOU LIKE THE DEINDUSTRIALIZED MON VALLEY, YOU'LL LOVE POST-NAFTA AMERICA

First-term Democratic Representative Ron Klink, a former local television news reporter, is one of the founders of the Congressional Anti-NAFTA Caucus. At each stop on the misery tour, Klink lists a litany of NAFTA evils. "The people pushing NAFTA are the multibillion dollar industries," he says. "They're ready to spend a hundred million to shove it down our throats."

Klink tells people that duty-free imports of Mexican glass will hurt local PPG Industries Inc. Warning that NAFTA will supercede states' rights to regulate, he conjures up an image of 18-year-old Mexican truck drivers tearing apart Pennsylvania highways with their overweight rigs. He even speculates that drug lords, salivating over freer trade for narcotics, are putting millions into the pro-NAFTA battle.

VAGUE PROMISES. But as the bus meanders north, it's clear that drugs, states' rights, and devastated highways are side concerns. The real issue in this part of the country is jobs. Here, they seem to move in only one direction: away. Although unemployment is only 7%—around the national average—plant closings have hit the area like so many bombs, leaving deep and painful scars. Even when new jobs arrive, as they have in software and health care, they creep in with little fanfare and do little to improve the mood. Now comes NAFTA. Its dangers seem very real, its promises entirely ethereal.

Probably the lone Republican aboard is Joe Ford, a commissioner for neighboring Washington County. Battling bus sickness, he looks straight ahead and speaks in subdued tones. NAFTA may be good, it may be bad, he says. We won't know unless we go ahead with it. I scribble quickly, thinking I'm getting my first pro-NAFTA interview. Then, Ford drops the kicker: "Twenty years ago, when we had money, we could have tried it. But now, we can't afford to take that risk and lose."

So much for a pro-NAFTA interview. Free-trade supporters aren't easy to find in steel country. They're mostly white-collar workers, and they tend to express their views very quietly. They certainly don't go on bus tours. Their opponents, who know what unemployment feels like, are vocal and passionate. And they don't want to lose out again.

By Stephen Baker in the Monongahela Valley

	1992 REVENUES	PROFITS	AVERAGE RATING*
NBC	$3.28 BILLION	$296 MILLION	11.0
FOX	$600 MILLION	$90 MILLION	7.7
ABC	$3.28 BILLION	$477 MILLION	12.4

*RATINGS FOR 1992-93 SEASON. EACH RATING POINT EQUALS 930,000 TV HOUSEHOLDS. DATA: A. C. NIELSEN, *BROADCASTING & CABLE*, BUSINESS WE

CABLE AND BROADCAST —TOGETHER AT LAST?

QVC and Time Warner each consider new networks made up of both

Here's a question to ask the next time you can't decide whether to watch Chevy Chase or David Letterman or Jay Leno: Why are several major media companies trying to start a fifth television network?

To most folks, a new network might seem as redundant as the gaggle of new late-night talk shows. After all, viewers are still fleeing the networks for cable. And new cable channels are sprouting like dandelions. But Time Warner Inc. and QVC Network Inc. each hope to assemble a very different sort of network—one that capitalizes on the parity between cable and broadcast TV.

Recently, both Warner and QVC have been busily drawing up plans and pitching prospective partners on their vision. Time Warner's Warner Brothers Inc. is contemplating a network that would link independent broadcast stations to its huge cable system. Barry Diller, chairman of home-shopping channel QVC, says he also plans a network that would have both cable and broadcast affiliates. "Any new network has to be bifurcated," says Diller, who created the fourth network, Fox Broadcasting Co., in 1986.

Such thinking would have seemed bizarre seven years ago, when Diller and Rupert Murdoch stitched together hundreds of independent stations to form Fox. But the TV landscape has changed radically since then. Fox grabbed many of the available independent stations in key markets. And with cable now reaching 62% of U. S. households, it almost has to be part of any fifth network. "There just aren't enough independents out there to give you 70% or 80% of the country," says Robert Wussler, a former senior executive at CBS Inc. and Turner Broadcasting System Inc.

WILLING CANDIDATE. Media experts say there are strong arguments for and against such a network. On the plus side, sponsors are willing to pay more for commercials on shows that air at uniform times around the country. Warner currently sells syndicated programs such as *Kung Fu* and *Time Trax* to some 150 stations. If those shows aired on a network, Warner could charge up to 40% more in ad revenue.

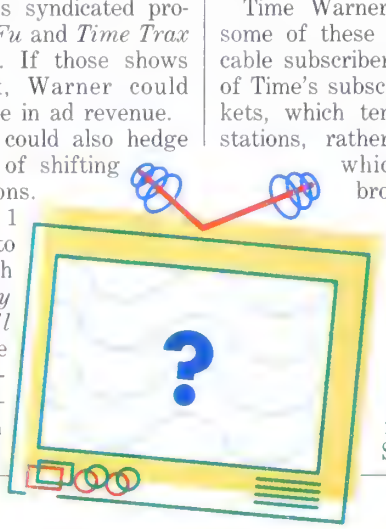
Owning a network could also hedge the studio in an era of shifting government regulations. Warner is now the No. 1 supplier of programs to CBS and its rivals, with shows such as *Murphy Brown* and *Full House*. But soon, the Big Three will be allowed to earn syndication revenue, which will encourage them to produce more of their own show that point, Warner could use an network for its programs.

On the minus side, Warner and I won't find it easy to line up enough iates. Warner used the prospect of er ad revenue and lower program costs to entice several station grou an Aug. 24 meeting. And the studi one willing candidate in Ronald O. man, who controls the six stations o Television Inc. But Paramount Cor nications Inc., which owns seven sta and has contemplated starting its network, remains skeptical.

Even if Warner lures two of the gest players—Paramount and C Craft Industries Inc., which owns stations—its network would still r only 30% of U. S. households. Medi perts say a network probably needs of the country to be viable. In De Tribune Co. owns the only remainin dependent station. So far, it has buffed offers to join a network.

Time Warner may be able to some of these holes with its 7 mi cable subscribers. The trouble is, n of Time's subscribers are in urban kets, which tend to have indepen stations, rather than in rural a which often don't. broadly, network viewi as much as 10% l in cable than nonc households, accor to A. C. Nielsen Co

Barry Diller has lar strengths and w nesses. As part of July 12 agreement merge QVC with H Shopping Network



er has an option to purchase a con-
ling stake in the 12 UHF stations
ied by Silver King Communications
Diller confirms that they could form
core of a fifth network. But critics
tend they are too low-powered.

WIG BUDDIES. Diller can draw on
ie invaluable cable contacts, however.
: is partly owned by cable operator
ncast Corp. and Liberty Media Corp.,
ch in turn is linked to cable behe-
ih Tele-Communications Inc. Through
m, Diller has access to more than 13
lion cable subscribers.

'o succeed, Diller and Time Warner
have to do more than go after eye-
ls. With TV audiences so thoroughly
gmented, any new network will have
have a distinct identity and audience
)eal. At Fox, Diller used hip and occa-
ially raunchy shows to appeal to the
inger viewers that sponsors crave.
:h a formula is tough to duplicate:
ntil you've got an idea," says Diller,
l this talk about a fifth network is
t so much hot air."

Diller thinks he has hit on that idea,
ugh he won't tip his hand. Meantime,
irner has hired former Fox President
nie Kellner to help fashion an image.
irner executives, who say privately
it a decision on whether to proceed is
)ut two months away, also refuse to
cuss the focus of their network.

Neither of these networks would have
: size or swagger of their predeces-
:s. But that's just as well. Nowadays,
: only use for another CBS would be to
'e Conan O'Brien someplace to move
talk show when he tires of Letter-
in's old slot at NBC.

By Ronald Grover in Los Angeles and
rk Landler in New York

THE *DIGEST* DEVELOPS A TASTE FOR TV DRAMA

Reader's Digest hopes its new ABC shows will boost its direct-mail sales

George V. Grune is a salesman by training, but he's also a *Reader's Digest* man: Tight-lipped and staid, he's not an executive who feels comfortable making sweeping claims for his company's electronic future.

Welcome, George Grune and *Reader's Digest*, to television. At 10 p.m. on Sept. 7, the bible of Middle America plans to air a one-hour ABC television special—a compendium of four adaptations of favorite *Digest* stories—that will be its first TV show since a similar effort flopped way back in 1955.

Grune, CEO of Reader's Digest Association Inc. (RDA) since 1984, refuses to say that the video venture is part of a plan to breathe life into his conservative company. But he does know this: "The way the *Digest* has survived is that it understands that its audience has changed." That's for sure. With U. S. circulation of 17 million, the magazine ranks second in readership only to *Modern Maturity*. But subscribers are aging—the average reader is 46—and the company hasn't attracted younger customers.

The strain is showing. On Aug. 25, RDA reported only a 1% increase in U. S. sales, to $1.2 billion, for the 1993 fiscal year, ended June 30. Overall, revenues and operating profits were up—but that growth was fueled largely by international expansion. In the U. S., business is dragging, and that weakness has the company's shares trading below 40—more than 30% off a peak of 56 last December.

OVERKILL. Much of the trouble stems from the company's vaunted direct-mail business, which accounts for 75% of earnings. Some 25 million homes have purchased an RDA book, video, or other product in the past two years. But the company's marketing increasingly is hitting saturated households. For years, RDA found double-digit growth by sending out three mailings a quarter. In the first three months of this year, though, the company flooded customers with seven solicitations, according to Dean Witter Discover & Co. analyst James D. Dougherty. Customers were confused, and some canceled earlier orders to buy the newer offerings instead. Dougherty predicts a 5% decline in U. S. book and home entertainment sales in 1994.

RDA executives say they are now paring mail solicitations, though they won't discuss specifics. Grune is taking other measures, too: In June, he reorganized U. S. operations and cut 250 positions—10% of the work force. He split unwieldy foreign operations into two units—Europe and the Pacific. And in a quest to build readership for the magazine, he says he wants to enter one new market "each year over the next several years." This year's entry: a Czech edition, to be launched in October.

Reader's Digest: On Television came out of a discussion more than a year ago between 64-year-old Grune, a former Marine who started at RDA selling ads in 1960, and longtime friend Daniel B. Burke, CEO of Capital Cities/ABC Inc. For cautious RDA, it's a bold step. But the deal could give the company the boost it needs in the U. S.: Grune hopes consumers, impressed by what they see on the tube, will be inclined to spend more on its mail-order bounty. It may also attract new subscribers to the magazine, still "the front door of our business," says Grune.


GRUNE CUT 10% OF THE WORK FORCE AND IS TARGETING NEW FOREIGN MARKETS

ABC is planning to produce at least three made-for-TV movies based on *Reader's Digest* articles. RDA is also tapping ABC's library for material for videos it can sell by direct mail. Analyst Dougherty figures RDA's video sales will more than double from 1991 to 1995, to $138 million, even without ABC.

In the meantime, though, analysts and RDA agree that as much as two more years of sluggish growth may be ahead for the company. Still, at a New York preview of the new TV show, Grune promised ad executives plenty of marketable material. "We've got lots of 'Drama in Real Life' in the *Digest* that can be shown on television," he said, referring to one of the magazine's features. With the CEO nearing retirement age, and two years of slow growth to overcome, the real drama may take place off-air—at his company.

By Chris Roush in Chappaqua, N. Y.

JONATHAN LEVINE

HEALTH CARE BY HEADCOUNT: PROS AND CONS

Capitation—paying doctors fixed per capita rates for health care—is spreading and provoking debate over cost savings and quality of care.

	WHAT INSURERS SAY	WHAT SOME DOCTORS SAY
QUALITY OF CARE	Plans help doctors focus on preventive medicine and avoid wasteful testing and referrals	*Capitation rates set too low can hurt quality by limiting providers' time and resources*
COST	Prepaid plans afford employers more predictable health-care costs, shift some financial risk to care providers	*Doctors shouldn't lose if costs skyrocket because of unforeseen developments such as new diseases*
ADMINISTRATION	Per capita payments cut the amount and cost of claims paperwork	*The emphasis on cost can conflict with doctors' focus on patients*

DATA: BUSINESS WEEK

PHYSICIAN, RESTRAIN THYSELF

More insurers are forcing cost caps on doctors. But will patients suffer?

Dr. Denise Daub got an unwelcome letter on July 24. It came from Prudential Health Care Plan of New York Inc. (PruCare), one of the region's largest managed-care networks. Starting Nov. 1, PruCare will no longer pay Daub each time she sees PruCare members, who make up one-third of her practice in Weehawken, N. J. Instead, it will pay a lump monthly sum for each PruCare patient under her care. If a member doesn't come in that month, Daub still gets the monthly payment; if he visits often and gets lots of tests, the payment stays the same.

The more patients Daub signs up, the more money she'll make—and the less time she'll have, potentially, to see each one. She's anxious about such prospects. "I don't want to look at how I'm being reimbursed," she says. "I want to look at my patients, at their medical history."

For decades, such "capitation" schemes have been the domain of health maintenance organizations. Now, the strategy is moving into preferred-provider organizations (PPOs) and other less integrated networks of doctors. PruCare, which administers plans for some 3.9 million people nationwide (including the employees of McGraw-Hill Inc., publisher of BUSINESS WEEK), is one. Networks such as Oxford Health Plans Inc., in Darien, Conn., and Emerald Health Network Inc. in Cleveland also are rolling out capitation-based plans. Travelers Corp. has used capitation in its HMOs since 1986. Its doctors receive between $15 and $55 per patient, per month.

Capitation presumes that doctors have an incentive to keep people healthy and avoid costly procedures when they're paid per patient, rather than per service. Employers like that strategy because it aims to rein in costs. Insurers like how it slashes paperwork, forces providers to work within a budget, and shifts some of their financial risk onto doctors.

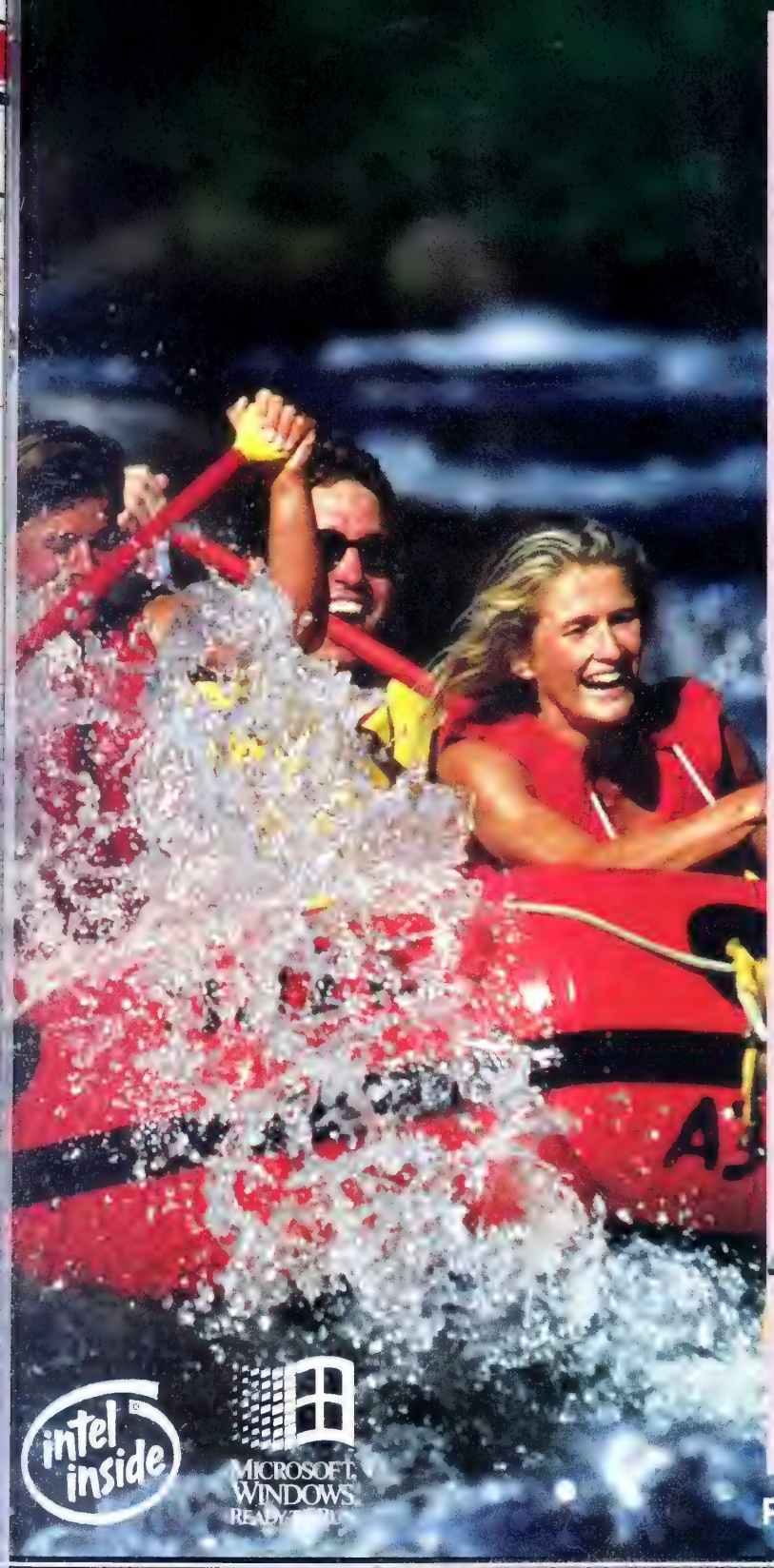
"EXTREME METHOD." Critics, though, fear the plans compromise quality. "Capitation is an extreme method of achieving rationing," charges Dr. Ralph Frankel, president of the Dade County (Fla.) Medical Assn. "The idea is to find a way not to give people something."

Such anger reflects widespread anxiety over the wholesale transformation—driven in part by capitation—of how medicine is practiced. Under the fee-for-service system, the more doctors do, the more money they make. Capitation, on the other hand, can reward doctors who emphasize preventive care and run fewer tests (table). PruCare, for example, gives doctors yearend bonuses if they've followed preventive-care guidelines and if patients are satisfied. Doctors can also get bonuses based on how many patients they accept, or if they keep costs and referrals down.

Given its dual focus on cost and quality, capitation is central to the health-care plans floating around Washington. But experts say it is market pressure that's making capitation inevitable. "This will revolutionize how hospital managers think," says Alfred W. Mansfield, chief financial officer at St. Therese Medical Center in Waukegan, Ill. "The less service used, the more viable the entity. The result will be a reduction in hospital use."

The real question: Does capitation work? Data are skimpy. But experts say capitation has helped HMOs and large group practices combat overtreatment. "The managed-care doctors run fewer tests, have fewer referrals, and nonetheless are possibly practicing more appropriately," says Michael D. Sydlaske, a consultant at William M. Mercer Co. Patients, though, sensitive to their relationships with doctors, tend to resist such change. David Szymanski and his wife, Rhonda, members of the CIGNA HMO in the Tampa Bay area, had to find a new obstetrician after CIGNA, which uses capitation to reimburse most of its physicians, dropped their original doctor. They were struck by the new doctor's impersonal service. "We were being herded through like cattle," says David. He blames such care on the increasing pressure insurers are putting on doctors. The couple has since found a new in-network obstetrician.

Skeptics wonder whether using capitation in looser networks will bring more problems. Without the support and peer pressure of a close group, individual doctors can run into trouble managing costs and care. And a doctor's best efforts to budget can be derailed by unforeseen diseases. "Capitation of individual phy-



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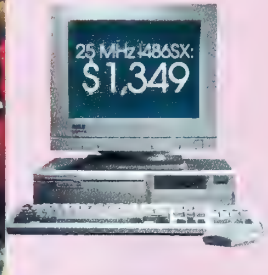

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cians is the road to ruin," says Sacramento physician Eugene Ogrod, chairman of the California Medical Assn. "If they get a bad string of patients, there's no way to even out the risk."

The financial pressures can be so great that doctors may be tempted to shy away from sickly or elderly patients. Self-contained HMO groups can police such abuses effectively. But individual doctors, working under less stringent oversight, may bend the rules. Capitation "encourages doctors to let go of patients who are really sick," says Dr. Edward J. Feller, a Florida physician.

Doctors also worry about a loss of autonomy. After PruCare's switch, pediatrician Cindi Hartz opted to drop the network, even though she could lose the 10% of her patients in PruCare. "I'm willing to see [PruCare] patients and take less money," says Hartz, based in Larchmont, N. Y. "But I don't want to be told when I can see patients and what I can and can't do."

CUSTOMER-FRIENDLY? PruCare says that it carefully monitors quality. "We're trying to develop a payment system uniquely different from fee-for-service," says Paul C. Conlin, PruCare's vice-president for operations. "We want a system that influences physician income based on what the customer thinks is important—quality, cost, and access."

Are employers sold on the idea? N always. "I'm not convinced it will work says Marshall Field V, incoming cha man of the board of trustees at Rus Presbyterian-St. Luke's Medical Cent in Chicago, which uses capitation in se eral units. "If you are a bunch of d tors or a hospital, and you see you a over budget, you begin to cut corners That shouldn't be a problem if capitati plans work the way they're supposed t But if less care translates into low quality, the results could be expensive

By Suzanne Woolley, with Michele Gal in New York, Ann Therese Palmer Chicago, Joan O'C. Hamilton in S Francisco, and Chris Roush in New Hav

OFFERINGS

A WONDER OFFER FROM HERBALIFE

The health-product outfit has new stock to sell, but questions abound

Need to shed a little cellulite? Bothered by a sluggish intestinal tract? Mark Hughes has just the thing for you. Last year, the 37-year-old founder of Herbalife International Inc. sold $405 million worth of herbal cellulite busters and other such products.

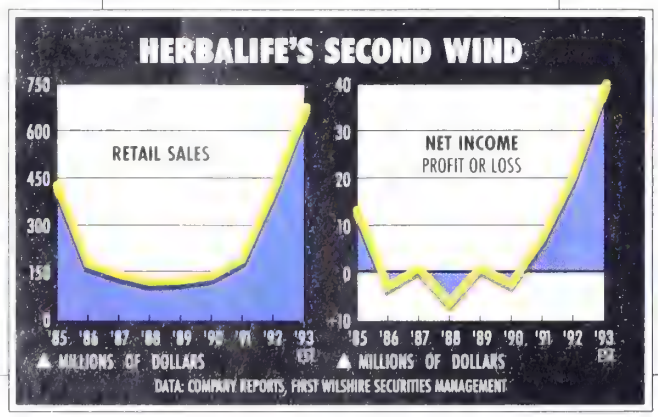
These days, Hughes is gearing up with a different pitch. Herbalife has filed a registration statement for a secondary offering of 5 million shares. Some 75% of the company's 26.5 million outstanding shares are held by insiders. The new issue will include 2 million new shares and some 3 million shares held by Hughes and former sales chief Lawrence Thompson. With its shares now trading near 14 over the counter, Herbalife's portion of the proceeds will be about $28 million. Management says it will use that to fund a catalog business.

BIG SALES. Is Herbalife a buy? On the surface, things look rosy. Retail sales—dollars taken in by distributors who sell Herbalife products door-to-door—doubled, to $337 million, in the first half of 1993. Net income came in at $20.2 million, vs. $8.6 million in 1992's first half. Distributors such as Betty J. McGregor of Lakewood, Calif., say Herbalife's hot-selling new weight-loss product, Thermojetics, is ringing up big sales in the U. S. Overseas sales are booming, too, and the stock is up from 50¢ in 1991. "It's not easy to find a growth stock like this that is selling at only 10 times earnings," says Fred Astman of First Wilshire Securities Management, which owns 280,000 shares.

The boom comes after a big downturn for Herbalife. Founded in 1980, the company agreed in 1982 to reformulate at least one herbal treatment that included traces of mandrake and pokeroot after the Food & Drug Administration questioned the safety of those herbs. After 1985 congressional hearings on natural treatments generated negative publicity for Herbalife, its sales fell from $427 million in 1985 to $177.7 million in 1986.

Now, Herbalife could be heading for trouble again. It acknowledges that possible new FDA rules for dietary supplements could force it to change or drop some products. And Thermojetics—which accounts for 40% of U. S. sales—is already under fire. The FDA is investigating reports from doctors that Ma huang, a Chinese herb used in Thermojetics, may have serious side effects such as hypertension. Earlier this year, Herbalife reformulated Thermojetics for sale in Canada after a similar probe.

McGREGOR: A WEIGHT-LOSS PRODUCT HAS IGNITED SALES



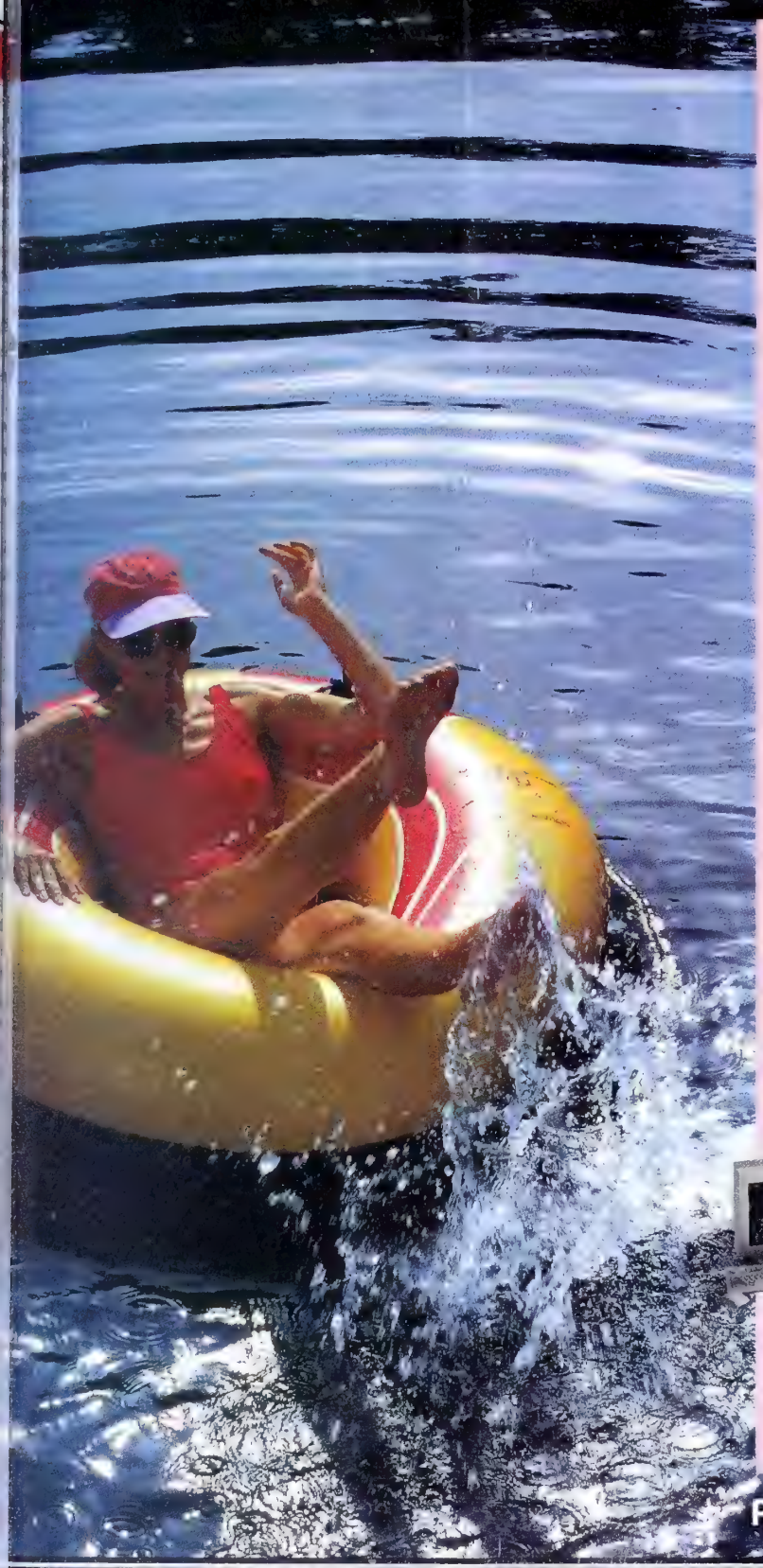
California is also mo toring Herbalife. In 198 without admitting fau the company agreed pay the state $850,000 settle charges it ha made unproven clai about the benefits of ce tain products. Herbali says it instructs its sal force not to make su claims. But distributo contacted by BUSINE WEEK said their custo ers report everythi from the disappearan of tumors to the elimi tion of chest pains aft using Herbalife produc Testimonials so close implying the produc can cure diseases "wou be of concern," says California Depu Attorney General Albert N. Shelden.

FOREIGN AFFAIRS. Herbalife says i products are safe. And David R. Add the company's chief counsel, conten the new FDA rules will probably on require some simple label modificatio Thermojetics, he says, could be eas reformulated without Ma huang, as was in Canada.

The final big question: how long c Herbalife's foreign sales keep boomin Sales surged, then fell off, in new m kets such as New Zealand and Mexi partly because of inconsiste distribution. In Spain, Herb life's second-largest market 1992, sales dropped 23% in th year's first quarter, partly b cause of regulatory restr tions. Herbalife says a beefe up marketing staff and a bett flow of new products will sol such problems. But Hugh may need lots of salesmansh to convince the market th Herbalife is a safe investme

By Amy Barrett in Los Ange

PHOTOGRAPH BY ERIC HOFFMANN BW; CHARTS BY TRIBUNAL



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CREDIT CARDS

THE AMERICAN EXPRESS CARD: DON'T SHUFFLE PAPERS WITHOUT IT?

AmEx wants to grab the federal-employee business from Diners Club

Five years ago, American Express Co. was more than willing to let federal bureaucrats leave home without its familiar green charge cards. The idea of bidding on a contract to provide cards to skimpy-spending federal employees seemed a bit downscale to AmEx. After all, it's the king of corporate card providers, with 89 of the 100 top U. S. companies among its accounts.

How times change. In the next few weeks, when the General Services Administration announces the winner of a contract to provide government employees with charge-card services, AmEx officials will be waiting anxiously by the phone. Not only is AmEx bidding, it's pulling out all the stops to wrest the contract away from Diners Club.

At stake: the nation's largest charge-card account, with 860,000 cardholders and $2 billion in annual charge volume. The competition has been "intense," says Allan Zaic, the GSA's director of services acquisition.

DATA FACTORY. Diners Club can't afford such a big loss. The GSA account makes up 10% of the Citicorp subsidiary's worldwide charge volume and about 40% of its roughly 2 million-cardholder domestic operation.

Diners Club figures it has a good chance of keeping the business Indeed, it won both previous five-year government contracts for card services, under which it provides federal agencies with travel and entertainment cards, automatic-teller services, and traveler's checks. It also comes up with detailed data on where employees use the card, so agencies can negotiate discounts.

American Express, however, has major advantages. Its cards are more widely accepted than Diners Club's (table). "Diners Club still has some cachet in Europe and the Far East, but in the U. S., it is tiny," notes Seamus McMahon, a consultant with Booz Allen & Hamilton Inc. AmEx also leads in the $56 billion corporate-card market: It has 56% of that business, vs. 11% for Diners Club, estimates *The Nilson Report.*

AmEx has another edge: It may be able to use its sophisticated travel-management services to lower governme travel costs. It does this already for c porations by analyzing and interpreti travel data and using its clout to h clients negotiate bargain prices. Am is already the State Dept.'s travel ag cy and was recently brought in to r the scandal-ridden White House tra department on an interim basis.

AmEx is serious about expanding business with the feds. A year and half ago, says one analyst, it set up task force to focus on getting the G contract. It also has developed a dire deposit system so the government c deposit travel reimbursements into e ployees' accounts. Thomas P. Faccio an analyst with S. G. Warburg Secu ties, favors AmEx to win.

If he's right, the contract will he keep AmEx' earnings on the upswing. the second quarter, Travel Related S vices, AmEx' card division, netted $2 million, up 89% over 1992. Facciola f ures the GSA contract would add abo $50 million to 1994 earnings. Kenneth Chenault, president of AmEx' TRS (pa 59), wouldn't comment on the contra bid, except to say that winning it "wou be a major benefit for us."

RED TAPE. Indeed, AmEx could use t boost of acquiring 860,000 new ca holders. Card membership has dropp 6.8% since 1990, to 34 million at the e of 1993's second half. Adding the G contract would more than offset proje ed cardholder losses for this year, givi it a net increase of about 200,000.

There are some doubts, howeve about how profitable the governme business is. Red tape raises cos What's more, federal cardholders are f from lucrative clients. *The Nilson R port* figures only one-third of the charge anything each month. And third of the ones who do charge w until their account is more than 60 da past due to settle.

The GSA also does not pay a per-ca fee, which means its card provider c profit only from the fees it charges me chants. Visa USA Inc. and MasterCa International Inc. banks haven't form ly bid: Analysts think they would lo money because they charge merchan lower fees than AmEx and Diners Clu Only Minneapolis' First Bank Syste seems interested, and it wants t GSA to change the rules to make Visa card viable.

As for AmEx, it has already ben fited from the bidding war by lear ing how to hustle after a contra With any luck, its new positive at tude will rub off on the feds.

By Leah Nathans Spiro with Kell Holland in New York and Mark Lew in Washington

AMEX DWARFS DINERS

	American Express	Diners Club
MERCHANTS	3.4 million	2.3 million
CARDHOLDERS	34 million	7.1 million
WORLDWIDE CHARGE VOLUME	$117.6 billion	$21 billion
ANNUAL SPENDING PER CARD	$3,459	$2,958

DATA: COMPANY REPORTS

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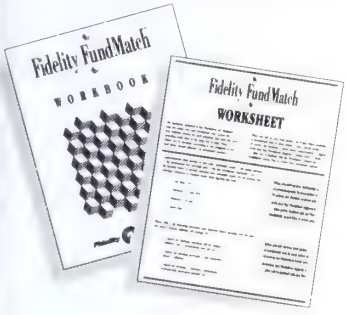

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Commentary/by Paul Magnusson

NEED AN ECONOMIC FORECAST? MAYBE THE *I CHING* CAN HELP

Been thinking that times are hard? Think again. The federal government has just completed a close look at the nation's economic performance during the past three years. The result: The largest annual revision of data in two decades. And the new numbers show that since 1989, the nation's growth, personal income, savings, and profits have been far better than the Commerce Dept. originally reported (page 23).

Leave it to the government to compound its mistake. Even as Commerce released its revised data, the White House was slashing its growth projection for this year from 3.1% to 2%. Do they know what they're doing this time around? Nope. The White House ignored Commerce's revised data and came up with its own set of figures. "It takes a good bit of arrogance in the first place for economists to think you can describe a complex economy in a set of tables," admits former Reagan White House economic adviser William A. Niskanen Jr.

The trouble is, bad data can have severe consequences. For companies, inaccurate sales predictions can lead to exploding inventory, layoffs, and plant closings. The government can run off track, too. The faulty growth estimates made during the Reagan years helped destroy any hope of balancing the federal budget.

COUNTING CARS. No one should be more upset by the new numbers than former President George Bush. Just as Bill Clinton was hammering away at Bush's economic performance last fall, growth was running at a blistering 5.7% pace, according to the latest revision. In the go-go years of the 1980s, economic growth only rarely exceeded this rate. In 1992, the last year of the Bush Presidency, growth totaled 3.9%, not the 3.1% originally believed. Real disposable personal income grew 2.2%, vs. the original estimate of 1.3% (chart).

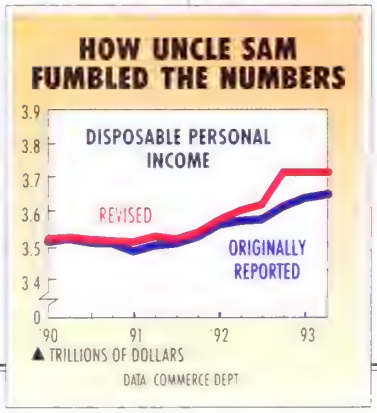
Given this level of inaccuracy, is it any wonder that many businesses would just as soon rely on seat-of-the-pants projections—or perhaps sunspots or goat entrails—as on government bean counting? Weight Watchers International Inc. of Jericho, N. Y., which leases space for nearly 20,000 meetings a week, is highly sensitive to economic downturns that can slash disposable income. But rather than track the official statistics, Weight Watchers looks to the consumer-confidence indexes from the Conference Board and the University of Michigan for its planning. "When we did an extensive study to correlate our business to economic statistics, we came closest with consumer confidence," explains Charles M. Berger, chairman of the H. J. Heinz Co. unit.

Similarly, auto companies have to base plant-production plans, equipment purchases, staffing levels, and advertising budgets on sales projections, which in turn are dicta ed by the economy. And revisio must be done monthly. But Jo Pitcoff, research and analys manager at Ford Motor Co., h learned not to trust governme forecasts. Government statisti he says, "just keep a lot of eco mists employed" and a lot of jou nalists busy writing scare hea lines. Instead, Pitcoff monito car dealers. "They see t changes in the showroom traff so they sense a change in t economy before it shows up in t numbers."

"IMPRECISE." There's not mu disagreement that the gover ment needs to do better on t numbers. A 1993 General A counting Office report conclud that "economic forecasting is enormously complex and still i precise process," and it cast dou on the "capacity of any econom model to accurately predict ki turning points." But even calc lating what has already happen in the past month, quarter, year still poses problems for ec omists, particularly in areas su as services.

Bush Economic Adviser Micha J. Boskin headed up a task for to try to improve such number crun ing but ran into a major problem: Bu get reductions during the Reagan A ministration cut back on funding f economic analysis.

Council of Economic Advisers ch Laura D'Andrea Tyson doesn't thi more money would necessarily he anyway. "We can put more money in [economic statistics and forecastin but there will always be revisions, we have to accept the uncertainty she says. An interagency task force looking at the pr lem anew, she ad but there's no de line for the repo Meanwhile, gove ment will just ke on pumping out s tistics—and rewriti history.



Magnusson tra economic issues fr Washington.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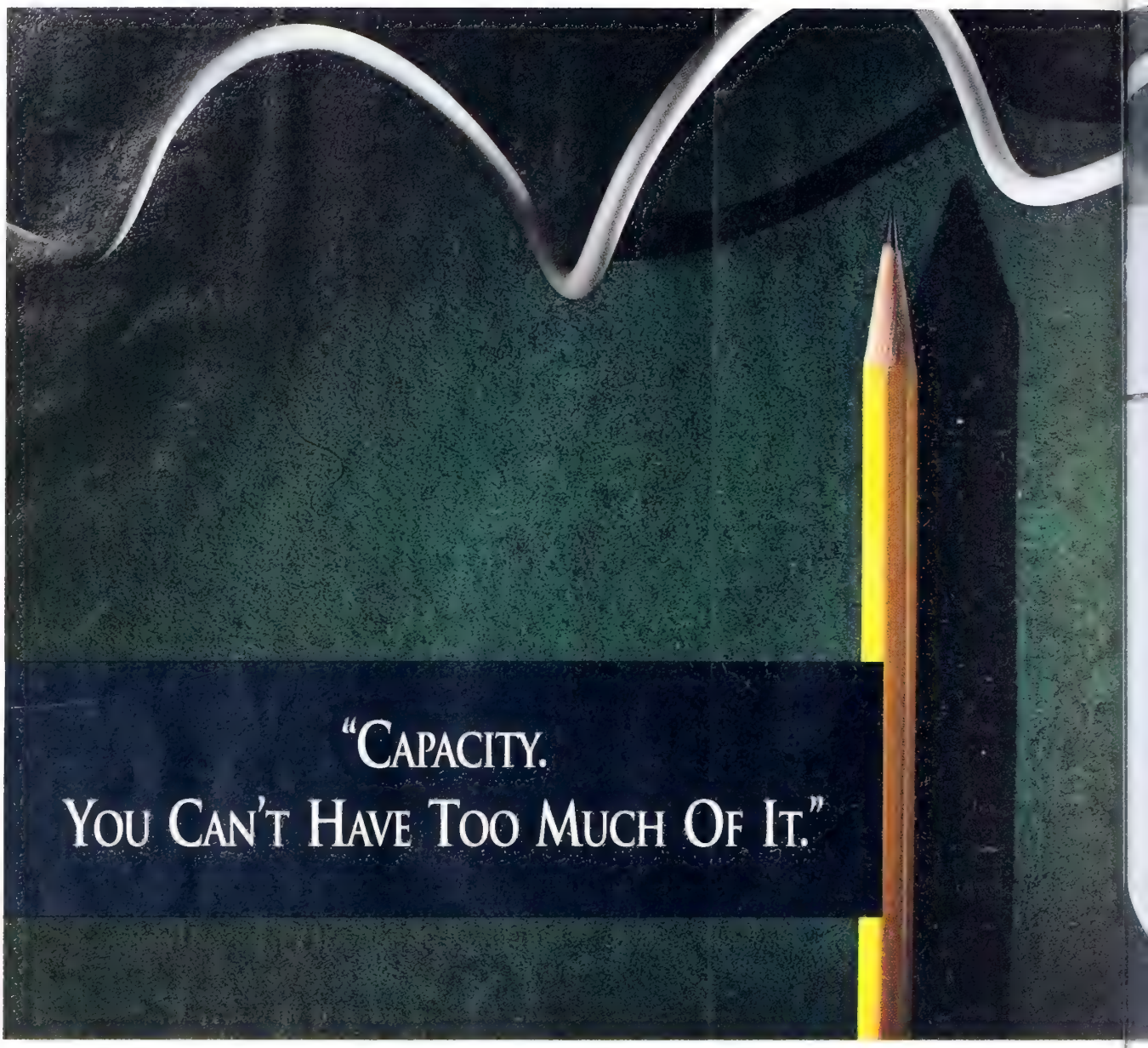

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EDITED BY KEITH H. HAMMONDS

WORK: MORE COMPLEX THAN WE THOUGHT

How is the U.S. work force changing? A new national study of 3,718 Americans provides some surprising answers. Employed women, for instance, were found to do 81% of their house hold's cooking and 78% of the cleaning, but men account for 44% of elder-care providers. Below, the percentage of respondents who said they:

▶ Will work harder than required to help their employers succeed	90%
▶ Are under 25 with children and would sacrifice education or career for family life	60%
▶ Say they are burned out or stressed by their work	59%
▶ Prefer to work with people like themselves	52%
▶ Have experienced downsizing at work in the past year	42%
▶ Have experienced racially motivated on-the-job discrimination	27%
▶ Would trade salary and other benefits for employer-sponsored child care near work	23%
▶ Measure their success at work by the money they make	21%

DATA: FAMILIES & WORK INSTITUTE

AMERICAN AIRLINES PICKS UP THE AX

▶ Some American Airlines employees face a gloomy Thanksgiving. The company on Sept. 1 announced plans for more cutbacks by the end of November. The number of management jobs to go is still uncertain but likely won't top last year's 665, the company says. Substantial nonmanagement layoffs are expected in 1994.

AMR says it also is considering spinning off its airline, technology, and aviation-services businesses into separate units. The nonairline operations are expected to show a $250 million operating profit this year, vs. a $107 million loss for the airline, says NatWest Securities analyst Michael Derchin. AMR says the restructuring is one of many options, and that no decision is likely before yearend.

IS FUJI DUMPING —OR COMPETING?

▶ Is it illegal dumping or another case of whining by a besieged U.S. company? On Aug. 31, Eastman Kodak filed a complaint against archrival Fuji Photo Film, claiming that Fuji sells color photographic paper in the U.S. for as little as a quarter of its price in Japan. But industry insiders say Kodak has been just as aggressive in its U.S. pricing as Fuji. After falling for years, Kodak's market share in the U.S. has held at about 58% since 1987, says Don Franz, publisher of *International Photo Processing Industry Report*. Fuji's share, at 17%, has grown slightly.

MAXWELL SELLS ITS STAKE IN TEXTBOOKS

▶ The latest Maxwell deal: McGraw-Hill, the parent of BUSINESS WEEK, signed a letter of intent on Aug. 26 to pay $337.5 million in cash for Maxwell Communication's 50% interest in Macmillan/McGraw-Hill School Publishing. The unit was a joint venture, formed with Macmillan in 1989.

ZERO TOLERANCE IN JAPAN

The gods seem to have deserted Haruki Kadokawa. The 51-year-old media magnate, who proclaimed himself a devout Shintoist after surviving a 1975 boat accident, was arrested Aug. 28 on suspicion of dispatching a worker to the U.S. to smuggle cocaine back to Japan. There is little tolerance for illegal drugs in Japan, and the arrest created a sensation, with newscasters reporting live from Kadokawa's home at 1 a.m. as police arrived.

KADOKAWA: WAS COKE IT

But the family-controlled Kadokawa Shoton Publishing h moved swiftly to control the damage, and the scandal proba won't cut far into earnings. Executives met the next day a scheduled a full board meeting to remove Kadokawa as pr dent. In face-saving moves, the company bought ad space fo public apology and shut down *Rex*, its dinosaur movie Otherwise, Kadokawa's $550 million business is unaffected

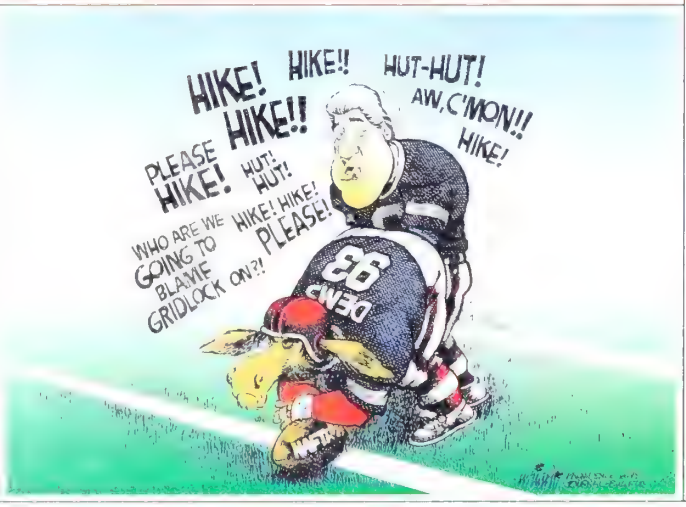
THE UAW NAMES FORD ITS WARM-UP NUMBER

▶ The United Auto Workers picked a strike target but set itself up for a tougher encounter down the road. The union will negotiate first with Ford in talks to replace the labor pact that expires Sept. 14 with the Big Three. But Ford has a flush pension fund and doesn't plan many layoffs, so it can be relatively generous with retirement funds and job-security pro ises. That means an acco between Ford and the U could be difficult for Gene Motors to match. GM has a billion-plus shortfall in its p sion plan and must get rid tens of thousands of work in the next few years.

$3 BILLION FOR ASBESTOS VICTIMS

▶ It was a decade in comi but Fibreboard and its ins ers seem ready to resolve manufacturer's asbestos-li gation woes. The company nounced on Aug. 30 that C Financial and Chubb h agreed tentatively to p aside $3 billion to pay for pending and future clai brought against Fibreboa by victims of asbestos in ries. The settlement crea one of the largest sin funds for asbestos victims U.S. history.

No such luck for Exxon. surers, including Lloyd's London, are suing the oil co pany in an effort to avoid p ing claims related to the 19 Valdez oil spill in Alaska. xon sued more than 250 ins ers on Aug. 4, seeking to cover some portion of its $ billion in expenses from accident.



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EDITED BY STEPHEN H. WILDSTROM

'HE RELIGIOUS RIGHT ADDLES UP A TROJAN HORSE

Ralph Reed saw the light just after Bill Clinton took office. The executive director of the Christian Coalition had commissioned a poll on what issues were most portant to church-going voters. It turned out that they, e other Americans, worried about the economy, taxes, and ıcation. Religious right hot buttons were way down the list, :h abortion ranking 8th and gay rights a distant 12th. Reed realized that his Virginia Beach (Va.) organization, the itical arm of religious broadcaster Pat Robertson's move- ent, had to change if it was to progress from faction to po- cal powerhouse. "Our message has been ected too long at our donor base and t at the public," Reed concedes.

OADER APPEAL. The result has been a etorical transformation on the GOP's right nk. Christian conservatives are soft-ped- ng divisive social issues and pressing a oader agenda concerned less with "fam- values" than the economic needs of nilies. Top priorities include bigger tax eaks for families with children, opposi- n to all new taxes, and vouchers parents uld use to pay for religious or other pri- te schools. As Republican consultant rol Whitney puts it: "The easiest way to person's heart is through their wallet."

The religious right's transfiguration is ucial to the GOP's future. Three decades after Barry Gold- ater's Presidential campaign first split fundamentalists from eir Democratic roots, Christian conservatives have become e most loyal of Republicans. But many in the GOP, especial- suburban moderates, are uneasy with their religious allies. fter the '92 convention, they were branded as extremists," ys University of Virginia political scientist Larry Sabato. 'hey have to change if they are to remain as players."

A shift to economic populism gives the Christians much oader appeal. "The religious right sees that the economic essage worked for the Democrats," says Democratic media consultant Dawn Laguens. "Even though [fundamentalists] have been portrayed as wacky and kooky, people in the political center are saying, 'Talk about things important to my life, and I will listen.'"

ROBERTSON: AN ECONOMIC POPULIST?

The most visible example of the Christian Coalition's new emphasis was its role in this year's budget fight. The group fought hardest against Clinton's tax increases, not his support for gays in the military or even funding of abortions. The coalition targeted moderate to conservative Democrats by running commercials in their districts. The pressure led some members, including Representative Charles W. Stenholm (D-Tex.), to abandon their support for the White House on the crucial vote. In Virginia, meanwhile, home-schooling advocate Mike Farris won the GOP nomination over a pro-choice moderate. Although he once called public schools "godless abominations," Farris has moderated his tone for the general election, stressing secular issues such as taxes, education, and crime.

BIGGER TENT. "What they're doing is very astute," says conservative Republican operative Greg Mueller. "They're expanding their tent without sacrificing their principles." Critics complain that the leopard hasn't changed its spots, dismissing the religious right's metamorphosis as an attempt to hide hard-line social positions. "It's clearly a tactic to make them more acceptable to voters," says moderate GOP consultant Whitney. "Most people don't want religious groups running things."

Reed insists that the fundamentalist Christian pols will never abandon their tenacious opposition to abortion, gay rights, and sex education. But don't be surprised to hear more about health care and middle-class tax cuts than condoms and obscene art. As the religious right is learning, you can't save souls unless you first save jobs.

By Richard S. Dunham

APITAL WRAPUP

ANTITRUST

The aggressive approach of Justice Dept. trustbuster Anne K. Bingaman is setting off a turf fight between Justice and the Federal Trade Commission. The two agencies share jurisdiction, but usually only one will consider any case. Bingaman created a stir in July when she moved to take over an investigation of Microsoft Corp. after the FTC deadlocked. Now, the FTC is moving in on a high-profile merger that Justice had been studying—Home Shopping Network Inc.'s proposed $1.2 billion takeover of QVC Network Inc. Justice claimed jurisdiction because it had earlier approved another merger involving HSN. But sources say the FTC has assumed the case because it is probing a related matter involving the parties. The rivalry is bad news for business, which has gotten used to any proposed deal being reviewed only by one agency.

COUPLES

Senator Thomas A. Daschle (D-S. D.) and his wife are joining the Clinton Administration's growing list of power couples. Linda Daschle, who now serves as senior vice-president of the American Association of Airport Executives, is expected to be named deputy chief of the Federal Aviation Administration.

SENATORS

It was a tough choice at the time, but it's looking like Senator Dianne Feinstein (D-Calif.) made the right move last year. Feinstein passed up a shot at a six-year seat to run for the two years remaining in the Senate term of Republican Governor Pete Wilson. Her first payoff was an easy ride to the Democratic nomination. Now, Feinstein appears well-positioned to win a full term next year. A recent Field Poll shows her with leads of 25 to 31 percentage points against likely GOP challengers, who include Representatives Robert Dornan and Christopher Cox.

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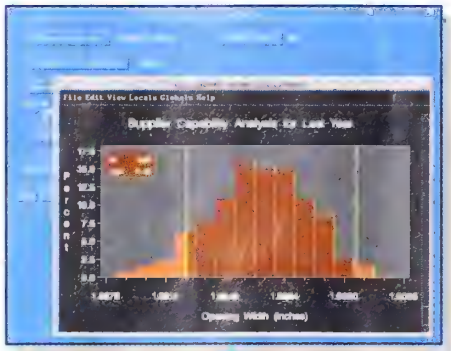

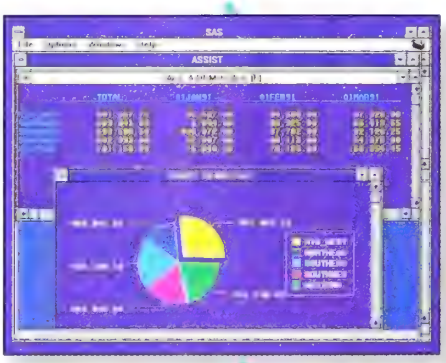

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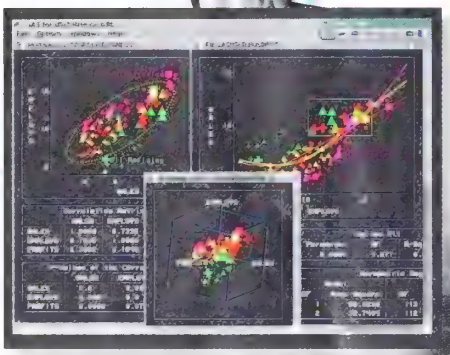

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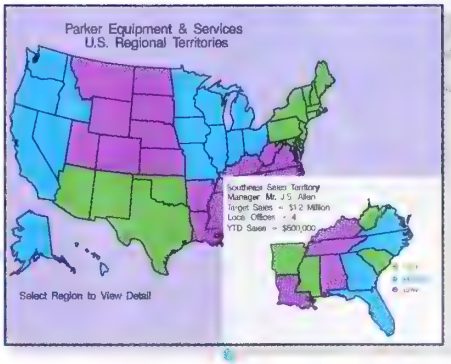

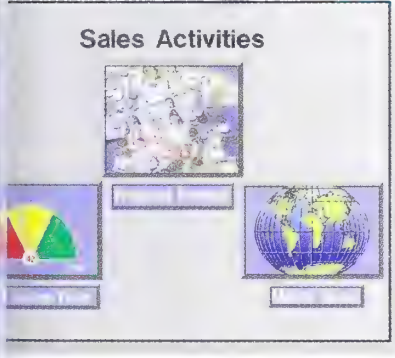

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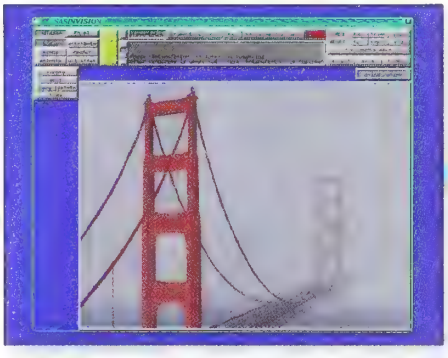

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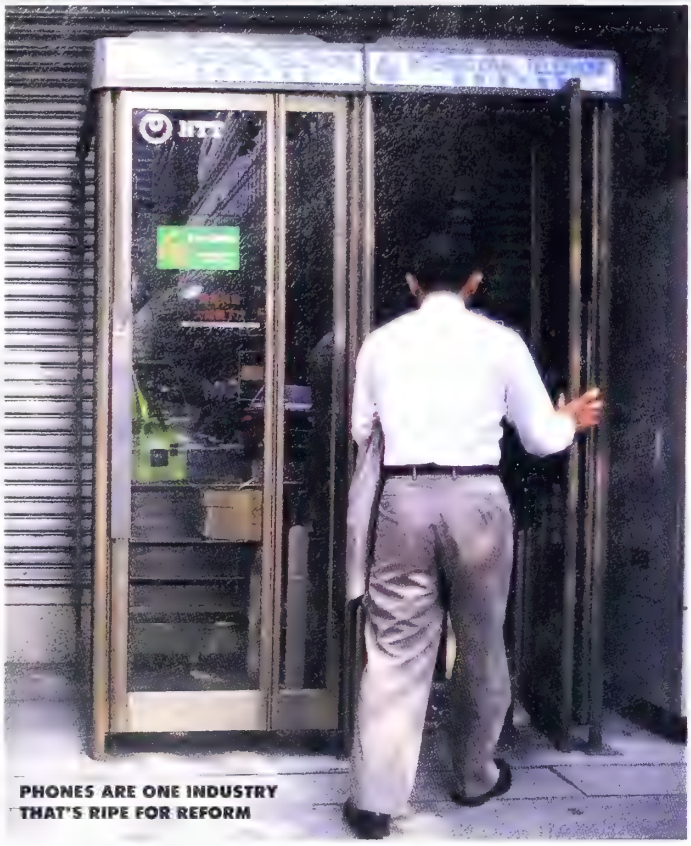


PHONES ARE ONE INDUSTRY THAT'S RIPE FOR REFORM

JAPAN STARTS TO CHANGE THE RULES...

DISTRIBUTION 20-metric-ton load limit on trucks will be lifted

COMMUNICATIONS Cellular phones may be purchased by users instead of leased

RETAILING Supermarket hours extended and liquor license rules eased

FINANCE Greater foreign access to government pension funds

CONSTRUCTION Easing of restrictions on imported building materials

HOSOKAWA

...BUT THERE'S A LONG WAY TO GO

LAND POLICY Zoning, taxes, and permits discourage housing construction and make it more expensive

TRADE Customs procedures slow down imports and increase their cost to consumers

TRANSPORTATION Regulation makes domestic air fares among the world's most expensive

LAW Foreign law firms can't form partnerships with or hire Japanese attorneys, nor can they operate under their own name

DATA: BUSINESS WEEK

WELL, IT'S A START

Japan talks deregulation at last—and more changes may be coming

Yukio Higuchi, the 65-year-old owner of a discount liquor chain in Tokyo, has for years wanted to build his own microbrewery. But a government requirement that any brewery must produce at least 525,000 gallons a year made that too costly for Higuchi and other would-be brewers. The regulation has effectively protected the monopoly of Japan's four beermakers and helps explain why Japanese quaffers pay $13 a six-pack.

Now, Higuchi may get his chance to make some home brew. Taking a step toward deregulation, Japanese bureaucrats are proposing to liberalize or abolish 59 rules that restrict business activity, hamper market entry, discourage consumption, or keep prices artificially high (table). The bureaucrats delivered the list of suggested reforms to economic ministers on Aug. 31, just 12 days after the new government of Prime Minister Morihiro Hosokawa ordered them to do so. Among the changes is a commitment to reduce the minimum-capacity requirement for brewers. Higuchi is happy. "I'm expecting a lot from Hosokawa," he says. "He has spoken out against overregulation for a long time."

URGENT NEED. Hosokawa, who has held office for less than a month, is pushing even harder than many expected for deregulation in the face of the Japanese economy's continuing deceleration and the growing diplomatic damage of its intractable trade surplus. The gross national product may rise by less than 1% this year, and the current-account surplus could reach $160 billion. Hosokawa hopes deregulation will stimulate economic activity and pass along the benefits of a rising yen. That presu[illegible] ably should translate into strong[er] imports.

Corporate Japan is already push[ing] for more. Just one day after the packa[ge] was announced, five major economic o[r]ganizations issued a 29-page respon[se] that included an "urgent demand" f[or] more aggressive reform and a new g[o]ernment agency to push it. Their 30 d[e]sired reforms ranged from lifting loc[al] government restraints on large stores t[o] eliminating curbs on helicopter impor[ts]. There seems little doubt that this sort [of] pressure will lead to another, more s[ig]nificant round of deregulation wit[hin] months.

Indeed, even Hosokawa's chief cabi[net] secretary hinted that the proposed r[e]form package comes up short. That's [not] surprising, since Hosokawa has made [it] clear that he's looking for deep and d[ra]matic change, which requires more th[an] 12 days' deliberation. To help get it, he[is] eager to join forces with big busines[s]. Hosokawa is asking Gaishi Hiraiw[a], chairman of Japan's most powerful bu[si]ness federation, Keidanren, to head a new blue-ribbon commission on structu[r]al reform. This would be an effort [on] the scale of the Maekawa Report o[f] 1986, which called for Japan to thro[w] open its markets and spur domestic d[e]mand. But implementation of those r[e]-

ons has been slow. And a much nger Prime Minister than Ho- wa—namely, Yasuhiro Nakasone— t get very far in this mid-1980s at- t to rein in bureaucracy.

regulation could pay off big, if it is ed far enough. Yoshikazu Kano, dent of the independent Research tute on the National Economy, says deregulation "can have a quick im- " Deregulating the beer and mobile- e markets and increasing the ratio ilding space to land would generate capital spending "tomorrow," he

ST STEP." Unfortunately, many of roposed changes in the initial pack- are vague and could take many hs to bring about because of en- hed opposition. The package also s many reforms that analysts view ey to a true overhaul of Japan's oppressive regulations and prac- . Those include perverse land and ritance taxes, so-called administra- guidance by bureaucrats, and entry iers to the telephone and broadcast cets. What's more, the "menu" of ms doesn't include a timetable. "It a mistake to ask the bureaucrats to ose deregulation, because they're nst it," says Kano. "We have to this as only a first step."

ill, the package includes plenty of alizing appetizers. Trucks' load limit 0 metric tons will be lifted, improv- cargo-handling efficiency. Consum- will be able to buy pocket phones ead of leasing them at exorbitant s. Supermarkets no longer will have ose at 7 p.m., observe a certain num- of holidays, or wait three years for a or license. Taxi drivers and fleet op- ors will be able to set their own s. Foreign money managers can look ard to greater access to govern- t pension funds.

Western executives in Japan are re- nding guardedly to the reforms. ere are many regulations that, if re- d, would make life easier for us," s a senior manager at a major U. S. h-tech firm in Tokyo. But, he notes, ere's an unrealistic belief by Wash- on that deregulation will necessarily Americans gain access." He sug- ts that collusive old-boy networks ld still stymie foreign entry.

he true test of the new government be how far and fast it can move ond this initial and modest set of re- ms. Bureaucrats, strong and savvy, e staked out their ground. Ho- awa's difficult challenge is somehow reassert political dominance over se intransigent civil servants who e served Japan so well over the rs and force them into more gut- enching changes.

By Robert Neff in Tokyo

HONG KONG

WEST WASN'T BEST FOR LI KA-SHING

Hutchison's chief is pointing the conglomerate back toward Asia

It was the passing of another English-born taipan from the Hong Kong scene. On Aug. 31, Simon Murray, managing director of conglomerate Hutchison Whampoa Ltd., announced his plans to step down. He's expected to head Deutsche Bank's Southeast Asia operations.

Murray's exit is a sign of Chairman Li Ka-shing's readiness to accelerate Hutchison's push into Asia. He's doing that by putting close Chinese associates and family members in the company's top slots. Hired in 1984 by Li, Murray helped build a world-class $3 billion company that will post $790 million in net profits this year. But with billionaire Li's sons Richard and Victor both in their twenties and eager to inherit the mantle, the 53-year-old Murray knew his days were numbered.

Li steered clear of China after Tiananmen Square—but his Western ventures were disappointments

Murray fought in the French Foreign Legion in Algeria before joining British trading house Jardine Matheson & Co. and eventually Hutchison. He won kudos for everything from encouraging talented executives to showing respect to janitors. Yet behind the scenes, Murray also voiced his support for the British-style rule of law in Hong Kong, and worried about corruption seeping in from the mainland after 1997. Some of his opinions undoubtedly clashed with others. One admirer even admitted that "he just may be the wrong guy for the times." Murray declined to comment.

Murray's replacement, Canning Fok, is Li's specialist in finance. But it's widely acknowledged that Fok is holding a seat for Richard Li, the tycoon's younger son, who was named deputy chairman. The Stanford University-educated Richard is often described as arrogant, but he also gets credit for developing Star TV, the satellite network sold to Rupert Murdoch for $525 million.

Murray's departure not only clears the way for the younger Lis. It may also mark a new direction in strategy. In the past six months, Li has shifted investments away from the West back to Hong Kong and China. And with 1997 approaching, Hutchison just may feel the need to have Mandarin-speaking Chinese executives at the helm. "It's clear that the more Hutchison goes into China, the more it will want to have Chinese people at the top," says one analyst.

SUPERMAN. Li wasn't always so taken with Beijing. After the Tiananmen Square massacre in 1989, he steered clear of China. By then, the company had already purchased a hefty stake in Canada's Husky Oil Ltd., and it further diversified when, under Murray's direction, Hutchison Telecommunications Ltd. moved into Britain and Australia. Both ventures proved problematic. Only this year will Husky turn a profit, after major write-offs. Hutchison Telecommunications (U. K.) Ltd. remains saddled with heavy costs from building up a British network.

By contrast, Li—whose nickname is Superman—now seems very much at home in China. Through Hutchison's Hong Kong International Terminals Ltd. (HIT), the company recently signed joint-venture agreements for major port projects in Shanghai and Zhuhai. Says Peter Churchhouse, chief of equity research at Morgan Stanley Asia Ltd.: "If Hutchison can get its hooks on [mainland ports], they've locked up the fastest-growing economy in the whole world."

The company is also developing real estate, a toll road, a power plant, and retailing ventures in China. Although China accounts for less than one percent of Hutchison's income, that figure is expected to skyrocket. China is clearly Hutchison's future. And Superman and his sons will be there to profit from it.

By Joyce Barnathan, with Dave Lindorff, in Hong Kong

AP-WIDE WORLD

CHINA

WHAT COUNTRY HAS A COMPUTER FOR EVERY 6,000 PEOPLE?

China's market potential is huge, and AST is way ahead of the pack

Sometimes, it pays to pioneer. Six years ago, giants IBM, Compaq, and Apple Computer thought China wasn't ready for personal computers. That left an opening for AST Research Inc., an Irvine (Calif.) company that had yet to make an impact on the U. S. computer scene. But AST was already advertising in Chinese computer magazines and shuttling managers to China to demonstrate its products. Those early efforts worked: Last year, AST's Chinese sales hit $118 million, accounting for more than 25% of China's PC market.

Now, the rest of the pack is hot on AST's heels. Most of the big U. S. players are on the move (table). Compaq Computer Corp. recently formed a joint venture to build and distribute 30,000 PCs a year in China. Apple, IBM, and Hewlett-Packard have extensive Chinese-language software-development programs and see China as a top priority for PCs, too. "China is becoming the most important market in Asia," says Ken Koo, Hewlett-Packard Co.'s director of computer products for North Asia.

China's economy is growing at a double-digit clip, but the country still has only 1 computer for every 6,000 people. (The U. S. has 1 for every 4.) The Chinese PC market will expand 22.4% a year for the rest of the decade, forecasts International Data Corp. And because the hottest demand is in such fields as finance, heavy industry, and transportation, even Beijing's efforts to slow down the overheated economy aren't expected to hurt. That's good for U. S. companies, which account for some 70% of sales.

Americans have taken the lead despite obstacles in Washington. Cold war restrictions imposed by the 17-nation Coordinating Committee for Multilateral Export Controls (COCOM) prevent U. S. makers from selling computers with high-end components to China. Digital Equipment Corp., for one, says the curbs are crimping its growth there. Other manufacturers fear that their new computers based on advanced chips will also be shut out of the market unless the restrictions are lifted. Help may be on the way. In late August, the Commerce Dept. lifted some restrictions, allowing export of such products as I AS/400 midrange machines. The Cli Administration is expected to pro easing other curbs as early as this

That should help U. S. makers mo in PCs. After a sluggish start in Ch even IBM is getting its act together 1990, it became the first U. S. comp to open a PC assembly plant in Ch But its machines were expensive an compatible with popular Chinese guage software applications. Now has introduced its cheaper PS V Point PCs and expanded distribution servicing. Big Blue officials say the confident they can increase sales, mated to be $20 million, by up to annually over the next few years.

TOUGH CHARACTERS. The key to conq ing China may be software. IBM, and others are racing to develop nese-language software. Apple alre is selling computers with operating tems in Chinese. "We have someth our competitors don't: a completely nese PC," says Apple's Far East spo man Donald Cheung.

AST hopes to remain the leader in na by establishing a local capability production and design. This month expects to launch a joint venture to b a $16 million plant to churn out 100 PCs a year. AST also hopes to introd tablet-based PCs, which allow users enter data by writing on the screen stead of typing. Since Chinese has th sands of characters, keyboards are d cult to use. AST wants to play a big helping schools, hospitals, and sma companies to computerize. "We planting our roots so that we can l the development of the market," s AST President Safi U. Qureshey.

Likely Asian rivals have been slow respond to the American push. Taiwa computer companies have been strained by their government. So Taiwanese leader Acer Inc. has won p mission only to set up a $5 million fa ty to make keyboards and monit Acer is also having difficulty find partners willing to get into major production schemes. Mainland offic "are looking for someone like IBM Compaq to come in big," says A Chairman Stan Shih.

Several Japanese computer compan are starting to use Chinese labor to sign software. But in key technolog such as software and microprocesso they are far behind the Americans. A result, the door is wide open for U companies to secure most of the Ch market. The question is whether Wa ington will let them.

By Pete Engardio in Hong Kong, w Amy Borrus in Washington and bure reports

U.S. MAKERS ARE MOPPING UP IN CHINA, WHERE THEY HAVE 70% OF THE MARKET

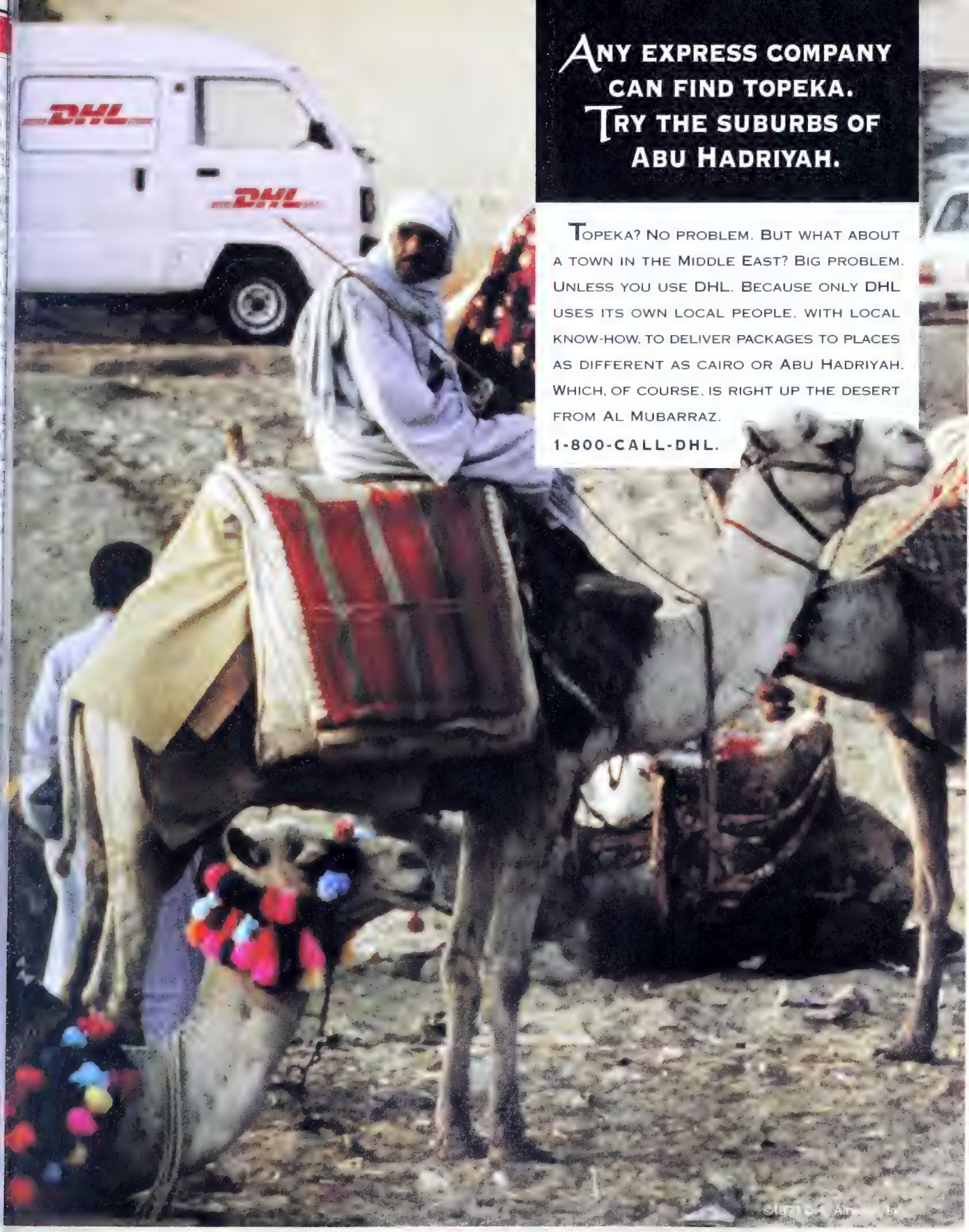
AMERICAN PC MAKERS PLUG INTO CHINA

AST Enters $16 million joint venture to produce 100,000 PCs next year

COMPAQ Gains production capacity and distribution through a joint venture with Beijing Stone Corp., China's leading computer company

APPLE Has launched PCs based on its Chinese-language operating system

IBM Introduces its new and cheaper ValuePoint PCs as part of a drive to increase sales in China by 50% annually



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EDITED BY ELIZABETH WEINER

IOW BUSINESS COULD :EMENT THE PEACE IN PALESTINE

istoric enemies and rivals such as Yasser Arafat, Shimon Peres, and Yitzhak Rabin are helping define a brave new world in the often tragic Middle East. So is hn Medved, the U. S.-born executive of a small Israeli softıre company, Kivun Computers Ltd. Jerusalem-based Kivun s developed a word processing program that can switch eas- from languages written from left to right, such as English, those written from right to left, such as Hebrew and Ara-. Medved thinks he'll soon be able to sell the software o the once-forbidden but rich Arab market. The key to that arket: finding a Palestinian partner in the West Bank. We're less than an hour from Ramallah," says Medved, refer-ıg to the largest Palestinian city in the Israeli-occupied est Bank. "But the big question is whether the road is going be open."

The historic joint declaration of principles initialed in late ugust by Israel and the Palestine Liberation Organization es a long way to open at once-blocked road. ut making sure it stays two-way street will be ıe of the toughest chalnges facing Israeli and O negotiators in the eeks and months ahead. 'hile the four-page greement on Palestinian ıtonomy marks a true reakthrough in the torıous Middle East peace rocess, the hard work egins now. "If Palestinn autonomy doesn't suced on the economic lev-l," says Gil Feiler, one of srael's top consultants on Arab economies, "then it on't succeed at all."

CUTTING STONE ON THE WEST BANK: ISRAELI INVESTORS ARE READY TO RUSH IN

Unlike the 1979 Camp David Accord, which did almost othing to promote economic ties between Israel and Egypt, sraelis and Palestinians are now aware that a real peace ill depend on quickly drawing investments into the Gaza and ericho areas to become autonomous Palestinian entities—nd making sure Israelis, Palestinians, and other Arabs have nough crossed economic ties to help cement the peace.

IONANZA? It's not easy work: After many secret meetings beween Israeli Foreign Minister Peres and PLO representaives, much remains to be worked out on the economic aspects f autonomy. The Palestinians, for example, are keen to quicky set up their own banks in the Gaza-Jericho autonomous enity. Neighboring Jordan, though, worries that its banks will e left out of the development bonanza expected after a eace agreement. The Clinton Administration is already offerng seed money to help a new Palestinian administration get going in the first two years of its life. It shouldn't take bundles f money. "We're not talking about a multizillion dollar enterprise such as getting Russia back on its feet," says William B. Quandt, senior fellow at the Brookings Institution, a Washingon think tank. "What's needed is a certain amount of investment in infrastructure, getting a banking system going, things that don't require huge amounts at the outset."

In the end, though, says Samir Hazbon, a Palestinian businessman and a dean at the West Bank's Bir Zeit University, "Palestinians and Israelis will have to cooperate." And they are starting to do just that. Far from the media's gaze, quiet contacts between Israeli and Palestinian businessmen have been multiplying. Most meetings have been in European or U. S. cities. Bennie Gaon, CEO of Koor Industries Ltd., Israel's largest company, now has a plan to plow $60 million into joint-venture investments in the West Bank with Palestinian partners. Now, thanks to the Israel-PLO entente, "we'll be able to meet openly with our Palestinian contacts," says Gaon.

The Palestinian areas—with unemployment over 50%—desperately need outside investment. Housing, sewage, electricity, and road systems are in a pitiful state after 26 years of military occupation. And the five-year-long *intifada*, with its strikes and disruptions, has ravaged the local Palestinian economy. Average annual per capita income in Ramallah of $1,700, for example, is barely one-tenth of Israeli levels. In Gaza, where 560,000 Palestinians are crowded into a small arid coastal patch, per capita income is a mere $850 a year.

Much economic development will depend on attracting investments from the wealthy overseas Palestinians scattered around the Middle East, Europe, and North and South America. Such diaspora groups are already studying plans to set up grain storage and a water desalination plant in Gaza. In the West Bank, according to Samir Huleilah, the director of a West Bank economic development group funded by the European Community, diaspora Palestinians recently ponied up a cool $100 million to build the West Bank's first cement mill. Until now, the monopoly Nesher Israel Cement Enterprises Ltd. has had to meet the entire needs of the occupied territories.

Many Palestinians are cautious about rushing into joint ventures with more powerful Israeli companies. And some in the Arab world worry that a newly autonomous Palestinian entity will merely be used as a bridgehead for Israeli products into their 200 million-strong market. Koor's Gaon, for one, says that Israelis need to avoid patronizing the poorer Palestinians. "It's their pride, their entity, their economy," he says. To give Koor's West Bank joint venture credibility, Gaon wants to keep Koor's participation in West Bank projects to a minority 25%. But he and others are showing that in making peace, business is already showing the way.

By John Rossant in Rome and Neal Sandler in Jerusalem, with Amy Borrus in Washington

LAWYERS

THE CASE OF THE BATTERED BARRISTERS

Even potent lobbyists won't save lawyers from a public backlash

During last year's Republican Convention, George Bush prophesied that all hope of damping the litigation explosion would be lost if Bill Clinton moved into the White House. "Every trial lawyer who ever wore a tasseled loafer" backed his opponent, Bush warned. But the former President's predictions of coziness thus far—at least for interest groups such as the Washington-based Association of Trial Lawyers of America—have been less than prescient.

Instead of becoming privileged insiders shaping government policy, trial lawyers appear to be losing out to other interest groups as the Clinton Administration crafts broad new initiatives. Anti-litigation and anti-lawyer sentiment among the public is soaring. And that makes indulging one of Washington's most invincible lobbies politically risky. "Disillusionment with lawyers is inevitably weakening the political influence of the organized trial bar," says Martin F. Conner, president of the American Tort Reform Assn.

WAR CHEST. A major test for ATLA will come when the White House unveils its long-awaited health-care proposals. A key element is expected to be restrictions on medical malpractice suits—constraints that could cost trial lawyers millions. The provision is an attempt to defuse opposition to the plan from doctors and win pivotal GOP support. In the past, ATLA's well-greased lobbying machine probably would have been able to derail any such plan. But the group will have a much harder time these days.

The anti-litigation backlash is fanning other attacks on the 60,000-member group (table). Several states are passing bills to restrict product-liability suits. And some lawmakers want to make it harder for investors to sue companies or their auditors for misleading financial statements. "ATLA has been able to fight one-front wars," says Victor Schwartz, who lobbies for manufacturers on product liability. "Now, it faces a multiplicity of challenges."

ATLA is confronting these challenges head-on. The group met with health-care task force leader Ira Magaziner in April, and individual lawyers active in Clinton's campaign have already had two sessions with the First Lady—"more than a lot of groups get," according to a White House staffer.

ATLA's path to top policymakers has been aided by its unbeatable lobbying formula: hefty campaign contributions. With the help of superlobbyists Thomas H. Boggs Jr., a Democratic insider, and Tom C. Korologos, a GOP heavyweight, ATLA built up a $2.4 million campaign war chest, fourth-largest in the nati, according to the Center for Responsi Politics in Washington. In addition, in vidual members contribute to home-st candidates. In crises, ATLA rallies me bers through the "key man" system, elaborate phone tree, to lobby their re resentatives in person. A former AT staffer boasts that the group could flo the capital with lawyers within hour starting with just two phone cal

HELD UP. The strategy paid off last ye during a Senate vote on a product ability bill. The lawyers put intense pr sure on the Senate, calling on such po erful pals as Majority Leader George Mitchell (D-Me.) and Commerce Co mittee Chairman Ernest F. Hollings (S.C.), a former trial lawyer, to keep t bill from passing. In the House, Judi ary Committee Chairman Jack Broo (D-Tex.) held up the bill.

Some ATLA membe aren't sure such old-sty tactics will work now. Wi the public tide runnin against them, lawyers w get little sympathy if th complain about measur that would shrink their i come. Some ATLA membe contend that the grou needs to win over voter not just lawmakers. "W have to show people we care," by getting involve in community activities, d clares Gary Gober, a Nas ville lawyer who ran f ATLA's presidency at th group's convention in A gust. Despite wild ovation Gober lost to Miami atto ney Larry S. Stewart, th choice of ATLA's old guar

Those leaders are banking on ATLA influence to weaken the health-care pla For instance, instead of capping awar to patients, the Administration migh require patients and hospitals to ent alternative dispute resolutions. "They' wise enough to realize that lawyer-bas ing is just a red herring," says curre ATLA President Barry Nace.

How ATLA fares on health care coul determine how vulnerable it will be o other issues. If Clinton persuades Co gress to adopt harshe measures than ATLA e pects, it could signal tha the lawyer-bashers are wi ning. Combined with thei losses in the court of publi opinion, lawyers may hav met their Waterloo.

By Catherine Yang i Washington

TRIAL LAWYERS FIGHT A MULTIFRONT WAR

PRODUCT LIABILITY Proposals limiting liability lawsuits against manufacturers are gaining in Congress and in several states

MEDICAL MALPRACTICE President Clinton's health-care plan could limit awards to patients in malpractice cases

SECURITIES CLASS ACTIONS Congress may take up legislation to make it harder for investors to sue companies or their accountants

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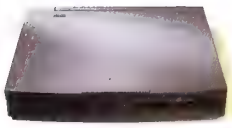

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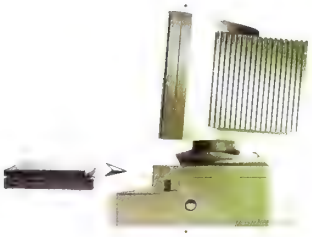

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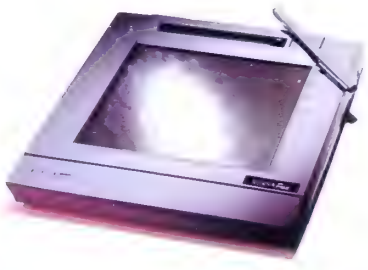

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YES ON THE PRIZE AT AMEX

v-key Ken Chenault has cracked through its elitist culture

When Kenneth I. Chenault was a child growing up in Hempstead, N.Y., supper was more n just a time to eat and make small . It was an ongoing seminar in the nault family ethic. Led by Hortenius nault, family patriarch and keeper he creed, roundtables ran from ra- n in America to more prosaic con- ns such as winning a part in the ol play. The discussions, though, al- 's passed through the same prism. lens was focused tightly on the no- of achievement.

n the eyes of the elder Chenault, ievement was a point-blank neces- , not a matter of choice. A diminu- man of 5 feet, 4 inches whose par- s were servants to white families in ntucky, he had been denied opportu- throughout his life. He prevailed ecome a prominent dentist and ac- champion of civil rights in his com- nity. And he expected no less of his r children. Chenault remembers well father's response to all life's strug- s—especially the challenge of being ck: "You're equal to the task."

At the age of 42, n Chenault may e surpassed even father's hopes. In y, he was named sident of the cru- l U.S. operations American Express 's flagship credit- d business. The llenge he faces is enormous: Fading stomer loyalty, fierce competition from ver-priced bank cards, and pressure m restless merchants to lower fees ve combined for several years to flat- n revenues and depress profits. Things ve improved lately (chart, page 60). t the Travel Related Services (TRS) it is hardly out of the woods.

CHENAULT'S APPROACH IS TO WORK QUIETLY, YET FORCEFULLY, WITHIN THE SYSTEM

That a black man would be given such sponsibility at a buttoned-down organ- tion such as American Express makes s ascent all the more re- arkable. A corporate culture long ewed as patrician and white-shoe has blended with a brand image based on privilege to place AmEx among the nation's quintessential Establishment companies. Eyebrows were raised within and without the company a year ago when Harvey Golub, an up-by-the-bootstraps Brooklyn Jew, replaced embattled Chairman James D. Robinson III. Thinly veiled anti-Semitism cropped up during the process, Robinson told BUSINESS WEEK. "Some people didn't want [Golub's appointment] to happen," he says. Many observers would say Robinson himself epitomized the AmEx man, but even he concedes that the company has suffered from its once pervasive elitist culture. Now, he hopes Chenault's appointment will help break that down.

PRAGMATIC. But it could be a mistake to draw from Chenault's climb too many sanguine conclusions about race in the workplace. A look at the record suggests that his swift rise at AmEx says more about Ken Chenault than it does about the prospects for the average minority executive. Chenault is a rare commodity: a black man who has amassed the kind of credentials that stand out at a place like American Express. And though plenty of hard work has put him where he is, he still suffers the indignity of having to answer for his success.

Indeed, Chenault is not at all comfortable with an open discussion of his race. He is concerned that his views may be misconstrued, his accomplishments devalued. Requests from the media to interview him on topics unrelated to the card business are usually declined. Gracious, even-tempered, and, above all, pragmatic, he believes in breaking ground the way his family always has: by working quietly, yet forcefully, within the system. Says good friend John Utendahl, chief executive of Utendahl Capital Partners: "Like any good businessman, Ken is very careful about what he says and where his decisions will leave him at the end of the day."

The fact is, Chenault's race has fueled his drive to succeed. From his earliest days, he says, his father drove home the notion of breaking the color barrier. "My father felt that race was society's biggest problem, but that you couldn't let it beat you down," Chenault says. "He felt like we had an obligation to make an impact, and that an individual could make a very strong impact in bringing about change."

Even as a kid, Chenault was obsessed with leadership. He wanted to pattern his life after such men as W. E. B. Du Bois, Winston Churchill, and Frederick

Douglass. Unlike most African Americans in his generation, however, Chenault had the resources—both in terms of family dynamics and wealth—to make those dreams a reality.

The elder Chenault developed the principles he passed along to Ken and his three siblings while attending Morehouse College in the 1930s. Although he was reluctant to go at first, he became enthralled by the parade of prominent blacks—from Du Bois to Thurgood Marshall—who spoke there regularly. He went on to earn a dentistry degree from Howard University in 1939 and achieved the highest score his year on the New York State dental exam.

But when Hortenius Chenault served in the Army during World War II, the military was segregated. And when he first tried to join the Allied Dental Corps—an international group of dentists from the Allied forces—he was denied entry because he was black. Ken Chenault holds dear his father's solution. Snubbed by the U. S. arm of the organization, the elder Chenault set out to befriend a group of foreign officers, learning French in the process. Eventually, he was ushered into the corps through an international arm.

GRAVEYARD DETAIL. Chenault was no less influenced by his mother and her family. The former Anne Quick, a Howard graduate and dental hygienist, gave him her love of education and an appreciation of the upper-middle-class lifestyle. A South Carolina native who immersed herself in art and poetry, she came from a family that had distinguished itself through ownership of a small cargo-shipping business in the early 1900s. It also boasted a Harvard Law School graduate in the late 1930s and Congressman Thomas E. Miller, a founder of South Carolina State College in Orangeburg. By black standards the Quick clan was wealthy.

From the beginning, Chenault took full advantage of what his family had to offer. He attended the elite Waldorf School in Garden City, near Hempstead. An honor student, he was president of his class all four years and captain of the basketball, soccer, and track teams. Later, at Bowdoin College in Maine, where he was a history major, Chenault continued to show scholastic promise, graduating magna cum laude. He went on to earn a law degree from Harvard before landing a job as an associate at the New York firm of Rogers & Wells. As he progressed, though, he found business more interesting than law and jumped to Bain & Co. as a management consultant.

Chenault joined AmEx in 1981 and rose quickly to become a TRS senior vice-president—and general manager of merchandise services, a unit known as "the graveyard." It was an AmEx backwater that marketed products such as luggage and personal computers through the mail. Says Chenault: "If you worked in merchandise services, you were dirt. It was not the place to be." With only $100 million in revenues, the unit was high on the hit list of then TRS President Louis V. Gerstner Jr.

Chenault turned the situation into an opportunity by convincing Gerstner that he could revive the unit. Gerstner g Chenault $4 million and 60 days spruce things up.

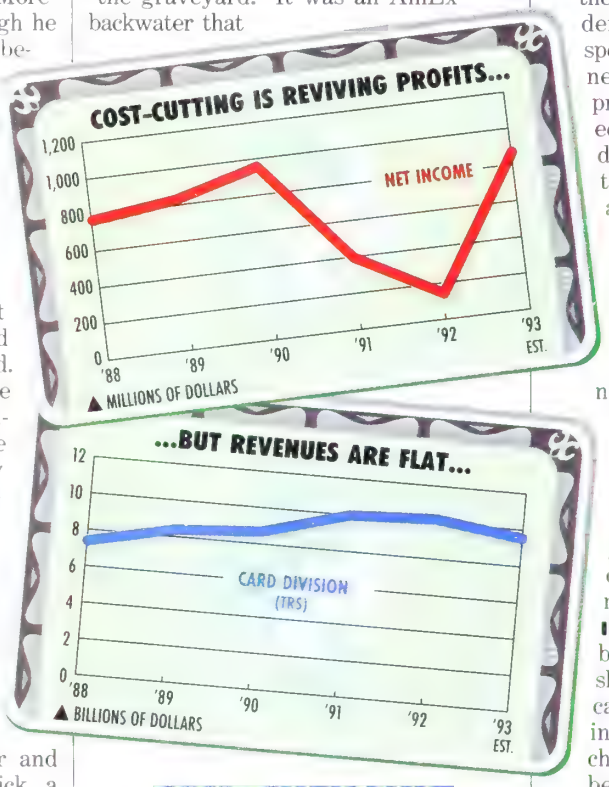
Chenault quickly went upscale, sw ping vinyl luggage for leather and ch watches for name brands. He beefed up technology and reorgan the management structure, slicing der-processing time in half speeding up customer service. Ge ner, pleased with Chenau progress, put away his ax and w ed for results. By 1986, merch dise services was growing by m than 20% annually and was ge ating $400 million in reven Says Gerstner: "If Ken ha turned it around, he would h been that unit's last manager.

The performance tagged C nault as a rising star. He qui moved through the ranks, ning the Platinum and Gold c divisions and the personal, gr card. By 1989, Chenault had m aged all the U. S. consumer-c products at TRS. Along the v he earned Golub's attention by gressively pushing to remake company's haughty image in marketplace.

IMAGE BOOSTING. Chenault been key to AmEx' attempts shore up strained relationships v cardmembers and merchants. B in 1991, for example, when m chants were defecting from Am because of its stiff fees, Chena pushed to have the fees lowered. also took on several board members senior managers who sneered at his i of launching an airline-mileage bo program to compete with Visa MasterCard. Getting down in trenches with rivals would cl with the AmEx image, they arg But the program ended up a h success, and Golub tagged Chen as president.

Managing The Card through woes will test Chenault. While airline mileage idea and other p grams are boosting card usa they are also expensive. Rec ing merchant fees, meantime cutting into revenues. The res ing margin pressure has only solution: a massive $1.5 billion cost-c ting campaign.

AmEx still dominates the market executive travel and entertainm charges. But Chenault wants to exp the company's relationship with corp tions by pushing a special card that p chasing departments can use to cha supplies. His selling point: Lett American Express handle the pap work can save companies money t



CAN CHENAULT REVIVE THE AMEX CARD?

Anchors Away!

THE END OF THE LUXURY TAX MAKES BOATING MORE AFFORDABLE THAN EVER.

Brunswick Corporation joins America's boaters in applauding the repeal of the Luxury Tax, the regressive tax which crippled an important segment of the boating industry.

The fun of boating has now been brought back into the reach of more people, and as the industry rebuilds and strengthens, you can count on Brunswick to maintain our leadership position in the global boating community.

But perhaps the benefit of repeal that pleases us the most, is the knowledge that putting more boats back into the water will help put Americans back to work.

See for yourself what excellent products skilled American craftsmen are turning out. If you've been thinking about buying a new boat, there's never been a better time to visit your dealer's showroom. He can introduce you to some of the best boating values that the industry has ever had to offer!

Leading The Way Since 1845

THE COMPANIES OF

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SHARING THE HERITAGE OF BEING NUMBER ONE.

Mercury, MerCruiser, Mariner, Force, Quicksilver, Bayliner, Sea Ray, Astro, Fisher, Maxum, MonArk, ProCraft, Robalo, Spectrum and Starcraft.

would otherwise be spent on processing orders.

His biggest push, however, will be an effort to persuade executives and other consumers to use their AmEx card for personal spending. The strategy is to broaden the types of establishments that take the card. In many cases, that means going downscale. AmEx has already targeted movie theaters, more casual restaurants—even Sears, Roebuck and Co. "We know that affluent customers go to Sears," Chenault says. "The customer decides where they use the card, not us."

If courting The Big Store means weaning the company away from its stubbornly narrow vision of what constitutes The Card's "prestige," that's O. K. with Chenault. "What turns me on is bringing about fundamental change," he says. "There are few opportunities in life, whether it's in your professional life or in a social mission, to be involved in major change."

The question is whether Chenault will bring about change at AmEx in both contexts. So far, most of his efforts to promote social change have occurred outside the company. He counsels other African-American executives and participates in the informal social/business network that includes such heavy hitters as Commerce Secretary Ronald H. Brown and Washington lawyer and American Express board member Vernon E. Jordan Jr. Chenault also devotes much of his personal time to black causes—from sponsoring political fund-raisers, to chairing functions for the National Association for the Advancement of Colored People, to mentoring disadvantaged youths.

WAKE-UP CALL. At AmEx, facing the race issue gets more complicated. The nature of corporations is that they reward fitting in, not making waves. Jim Robinson applauds the posting of Chenault for two reasons: because he thinks him eminently qualified and because he believes the choice will shake things up even further. "If you bring people in from different backgrounds, you're going to wake up the country club that's gotten too comfortable," Robinson says. "If you leave the machine on autopilot, it's just going to clone what you've been cloning."

Chenault, of course, would rather his accomplishments be seen simply for what they are: the fulfillment of years spent preparing himself for the big time. He knows the issue of his race won't go away. But Chenault tries to let his performance speak for itself. "I've had to work very hard to get here," he says. "The odds are still not in one's favor."

By Ron Stodghill II in New York

TURNAROUND ARTISTS

THE MAN WHO MENDS TOY COMPANIES

Fisher-Price's Ronald Jackson is a master of the turnaround

Ronald J. Jackson isn't what you would call a playful executive. But if you've got a broken toy company, he's the guy to call. Twice now, he has taken an ailing toy division spun off from a big conglomerate and turned it around. And twice, the company has been sold for three times its original value.

In 1987, Jackson unloaded Kenner Parker Toys Inc., the toy and board game unit spun off by General Mills Inc. in 1985. Jackson spent a year restructuring the company before Tonka Corp. bought it in a hostile takeover for $622 million, triple its initial market value and then some. Last month, it was Fisher-Price, which Quaker Oats Co. sold to the public in 1991, after hiring Jackson as CEO. On Aug. 19, Mattel Inc. agreed to buy Fisher-Price for $1.1 billion, triple its market value of two years ago.

JACKSON: GOOD TIMING

NEW TEAM. Jackson says he didn't ask for either sell-off. Kenner Parker was a hostile deal and Mattel's offer was unsolicited. "We could absolutely have done well on our own" at either company, says Jackson. Nonetheless, the taciturn, 49-year-old Midwesterner is getting kudos for both his turnaround skills and for knowing when to call it quits.

Fisher-Price was a mess when Jackson took over. Long the nation's premier maker of toys for infants and preschoolers, it made a disastrous foray into toys for older kids in the late 1980s. When Jackson arrived in May, 1990, Fisher-Price was losing $4 million a month. Quaker had already closed a big upstate New York factory.

Jackson executed a textbook turnaround. He closed two more plants, dropped most of Fisher-Price's products for children over six, brought in a new management team, and consolidated operations spread across the globe, including product engineering and procurement. He then made sure that products could be introduced simultaneously in the U. S. and foreign markets, which account for about one-fourth of the company's sales. Gross profit margi jumped to 46% in 1992 from 33% wh Jackson arrived.

Despite Jackson's insistence that didn't go looking for the Mattel de he made out pretty well in the proce His compensation has been heavi weighted toward stock options, and h been buying Fisher-Price shares on t open market. His stake was worth abo $21 million based on the sale price.

But Jackson says he sold Fisher-Pri for less selfish reasons: "It's a good v ue for shareholders, and will do even better as pa of Mattel." Analysts agre Kidder, Peabody & Co Gary M. Jacobson es mates that cutting redu dant international oper tions alone will shave cos by $35 million. He thin an additional $31 milli can be sliced from domes operations.

Jackson didn't start o as a troubleshooter. Raised in Michiga he went to Michigan State University business school and spent his early c reer working for General Mills' clothi and restaurant divisions. Initially a nance specialist, he switched to mark ing when he moved to the Kenner Par er unit. After that, his resumé mak your head spin. In 1985, shoemak Stride-Rite Corp. hired him away as i president. He was there for five mont before Kenner hired him back. Wh Kenner was sold to Tonka, he became Tonka consultant. But in 1990, he r turned to Stride-Rite as CEO for s months. Quaker got him next.

Jackson isn't likely to offer any mo details on his past. Calling him reserv in manner is putting it lightly. Says o friend, "he only tells you what he wan you to know." Still, "he's an excelle team builder and isn't political," says former Kenner Parker colleague.

What's next? Jackson will become Mattel director and is negotiating a bi ger role. But he may also want to tac le another turnaround situation. An body out there with an ailing divisio Now's your chance.

By Geoffrey Smith in Bost

Nonstop to London.
Showers expected upon arrival.

British Airways' new arrival facilities at London's Heathrow and Gatwick airports are making quite a splash. Now, ClubWorld℠ and First Class passengers can enjoy a hot shower and breakfast or even catch up on business in our private lounge. You'll be off to a flying start. *It's the way we make you feel* that makes us the world's favourite airline.

BRITISH AIRWAYS
The world's favourite airline

On Feb. 20, 1991, Honda Motor Co. President Nobuhiko Kawamoto slipped across Tokyo in his chauffeured black Legend to meet with a living legend—Soichiro Honda, the company's 84-year-old founder. Honda was the technical wizard with a motorcycle shop and a stubborn streak who had become a folk hero in Japan. Defying powerful government bureaucrats who wanted to restrict the number of Japanese auto makers, Honda broke into the car business in 1963 and built Japan's most innovative car company. He lured top talent from rivals, spurred engine advances with mottos such as "success is 99% failure," and led large group meetings, dubbed *waigaya*, in which decisions were made on everything from styling to growth strategies. The man inspired generations of bright-eyed gear heads who dreamed of designing sports cars. One of them was Kawamoto.

That's why Kawamoto, then 54 and president for all of eight months, wanted his idol's blessing for what he was about to do. Well before competitors had an inkling that the coming recession would devastate their sales, Kawamoto sensed trouble inside his company. A 10% cost overrun on the just completed 1990 Accord showed that Honda's cherished engineering culture was out of control. *Waigaya* also bog things down now that the company, though still a niche m keter in Japan, had 85,500 employees worldwide and sale $42 billion. At Mr. Honda's office, Kawamoto bowed, down, and got to the point. "Not everything you taught right for the future," he said. "From here on, I will do thi that may not be agreeable to you. Please al me." Honda swallowed. Then he nodded.

NO DISGUISES. With that, Kawamoto launch the most wrenching realignment in Hond history. Ditching *waigaya*, he and two top c uties began ruling by fiat. He divided company by product lines so the robust mo cycle and power-equipment groups would disguise trouble in cars. Kawamoto him took over autos, now 75% of Honda's sales. reined in Honda's free-spirited engineers, e though he had once been one, and pulled of Formula One racing—the testing grou for Honda engines where his career had started. Most imp tant, Kawamoto directed an all-out attack on costs on new car that would largely determine the company's U. S. s cess through the 1990s. "We were a company run by insp tion," says Takeomi Miyoshi, president of Honda R&D E rope. "We are switching to logic and reasoning."

A CAR IS BORN

NOBUHIKO KAWAMOTO TAMED HONDA'S UNRULY CULTURE AND OVERSAW THE CREATION OF A [illegible] NEW ACCORD. CAN HE MAKE THE CAR NO. 1 AGAIN?

ow comes the day of reckoning. The 1994 Accord—the first -bound car developed with Honda's new approach—will hit vrooms on Sept. 9, and already the industry is abuzz. n as rivals switch to bigger and pricier midsize cars, da is staying with a compact Accord. The four-cylinder se- is sportier than its boxy predecessor—though cautiously so till play to the Accord's traditional -boomer customers. The car is safer, dual air bags and beefed-up door ns. An optional version of the 2.2 liter ne boosts fuel economy by 20%. "Spec- lar," says DRI/McGraw-Hill auto ana- Bernard G. Campbell. "It's the smooth- quietest, most expensive-feeling -cylinder engine I've ever experienced." est of all, it's affordable. Thanks to ay-pinching where it doesn't show— e than 50% of its parts by value are the 1990 Accord or the Civic—the Accord will be priced roughly the same as its predeces- starting at $14,330. "This car at this price is going to slow perception that the Big Three are back," argues Jack an, auto analyst for Salomon Brothers Inc.

or Honda's sake, he had better be right. The Accord was erica's best-selling car from 1989 to 1991. Then competitors weighed in: the Toyota Camry, Nissan Altima, and Chrysler LH sedans. In a flurry of incentives and fleet sales, Ford Motor Co.'s redesigned Taurus took the 1992 sales title last December, winning by 8,820 cars. Through July, the Accord's sales were down 27.3%, to 165,534, while the Taurus slipped only 4.7%, to 200,928. Tomoyuki Sugiyama, chief of the '94 Accord development team, downplays pressure to reclaim the title. Yet he code-named his baby CY, for car of the year.

SURVIVAL TEST. Much more than bragging rights hinge on the new Accord's popularity. All Japanese carmakers are hurting—even mighty Toyota Motor Corp. expects operating losses this year. But Honda—an also-ran in Japan, where it ranks fourth with a 8.4% market share—is especially vulnerable. It missed the booming minivan market, and though its Acura brand was the first Japanese luxury-car line in the U. S., Toyota's Lexus and Nissan Motor Co.'s Infiniti have captured much of that lucrative business. Of Honda's $14 billion in U. S. sales, more than 50% come from Accord sedans, coupes, and wagons. So as the old Accord slipped and the dollar plunged vs. the yen, Honda's profits slumped 41% in the year ended in March, then 62% in the June quarter, when it took a 25-billion-yen hit

THE 1994 ACCORD: FROM DRAWING BOARD TO SHOWROOM

1989 SEPTEMBER As the 1990 Accord is launched, a concept team in Japan begins brainstorming for the next full-model change, scheduled for model-year 1994.

1990 JUNE Nobuhiko Kawamoto takes over as Honda's president. For the first time, American and European engineers and marketers are flown to Tokyo to help with early-stage planning for the new model.

AUGUST Nearly 60 American production engineers and their families begin moving to Japan for two- to three-year stints working with development engineers at Honda's Sayama assembly and Wako engine plants in Japan. They're to make sure each part can be easily and cheaply manufactured at Honda's plants in Ohio.

DECEMBER The Japanese auto market begins a three-year slide. After a contest among Honda's studios in Japan, the U.S., and Europe, top Honda stylists choose the 1994 Accord's design. An entry from the Wako studio beats out the designs from the U.S. and Europe.

1991 MARCH Faced with disappointing sales and surging costs, Kawamoto radically restructures Honda and takes personal control of auto operations.

DECEMBER For the third year in a row, the Accord is America's best-selling car.

1992 MARCH Kawamoto drives the first '94 Accord prototype and asks for changes in styling: a raised hood and taller grille. A test run shows that the engine overheats.

SEPTEMBER To save money, Honda decides to pull out of Formula One racing, which it had used to hone many engine advances

DECEMBER Ford's Taurus breaks the Accord's run as the top-selling car in America.

1993 JANUARY Accord sales plunge after Honda removes $1,000 dealer rebates it had used to battle Ford.

JUNE Honda's profits slump 62% at the close of its first fiscal quarter, and the company predicts an additional 40% drop for the year ending in March, 1994.

SEPT. 9 The 1994 Accord will hit the showrooms.

DATA: BUSINESS WEEK

in currency losses. Kleinwort Benson International Inc. auto analyst Steve Usher thinks Honda will post its first operating loss this quarter. "If this car fails, we won't survive," says Kawamoto.

While that's unlikely, the Accord will prove the wisdom or folly of his reorganization. More than with any previous model, American design, production, and marketing ingenuity had a hand in bringing this Honda to life. And Honda's pampered Japanese engineers learned, many for the first time, how to cooperate with other parts of the company. Both are important now that the fiercely independent but cash-strapped company realizes it can expand overseas only with the help of partners such as Britain's Rover Group Ltd. and South Korea's Daewoo Corp. "The CY development was like a trial run in learning how to work more intricately with international partners," says Executive Vice-President Yoshihide Munekuni.

The '94 Accord will also foreshadow how well Japanese carmakers can rebound against Detroit. After decades of steady growth in which there was always some new market to conquer or a misstep by the U.S. Big Three to exploit, the Japanese have hit a wall. Japan's home market has reached saturation. Europe is increasingly protectionist, and Detroit has fought back with quality products such as the Taurus and General Motors Corp.'s Saturn. No longer able to count on sheer volume for profit, Japan is cutting costs. "From now on, every Japanese product launch will reflect these efforts," says Kleinwort Benson's Usher.

"ROUGH STARTUP." The story of the '94 Accord begins in September, 1989, just after the 1990 model went public. Sugiyama assembled a core team of some 20 engineers to conceptualize the next generation. And though the 1990 model was striking gold, the need for drastic changes was obvious. Despite its ho-hum styling, the '90 had cost a mint. A switch from a cast-iron engine block to an aluminum one plus other changes required new assembly lines and caused glitches galore. "We had a rough startup," recalls Al Traucht, associate chief engineer of the New Model Center at Honda's Marysville (Ohio) plant. In fact, while the company's sales in 1990's first quarter jumped 24.1%, net income rose only 8.9%. So the '94 team set basic objectives: Hold total spending level with the 1990 Accord. Cut new equipment investment in half. Carry over 50% of the parts—and anchor the price.

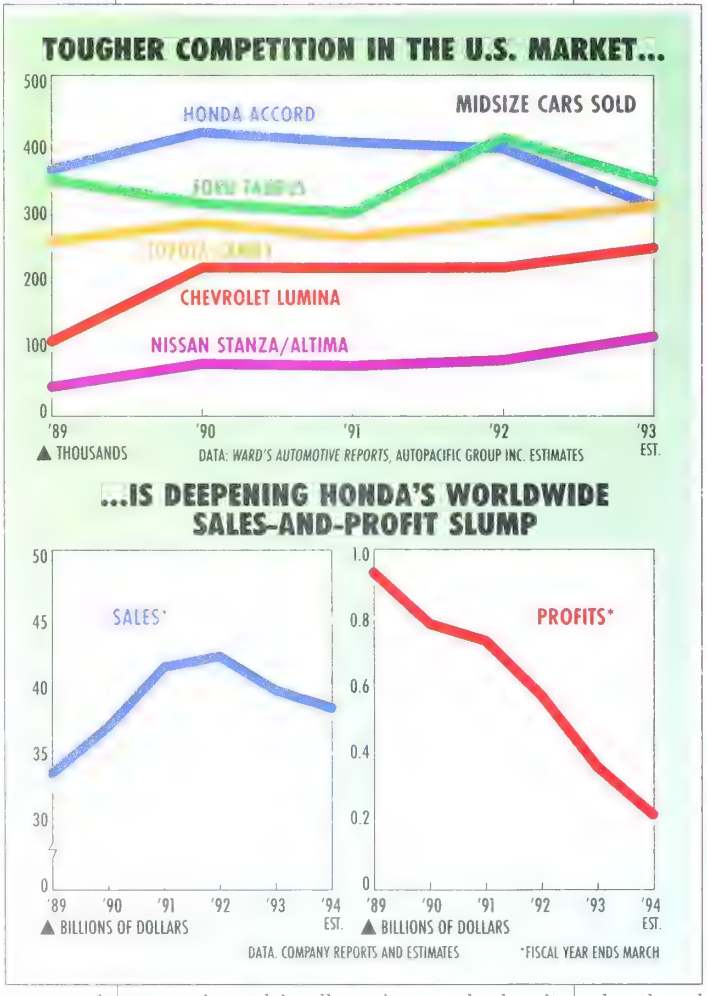
The '90 offered another lesson: Making one world car may be impossible. To preserve Honda's American image as a maker of well-engineered family cars, project chief Miyoshi hadn't changed styling much on the '90 model. Yet R&D, anxious to bolster Honda's sportier image in Japan, had come up with a spiffy five-cylinder engine. Debates raged over whether to sell the same Accord in all markets and what it should look like. Time ran out, and Honda ended up wasting millions by throwing money at two completely different cars. The Accord, heralded as a world car, sold poorly in Japan, and the Acura Vigor, with the five-cylinder engine, flopped in the U.S.

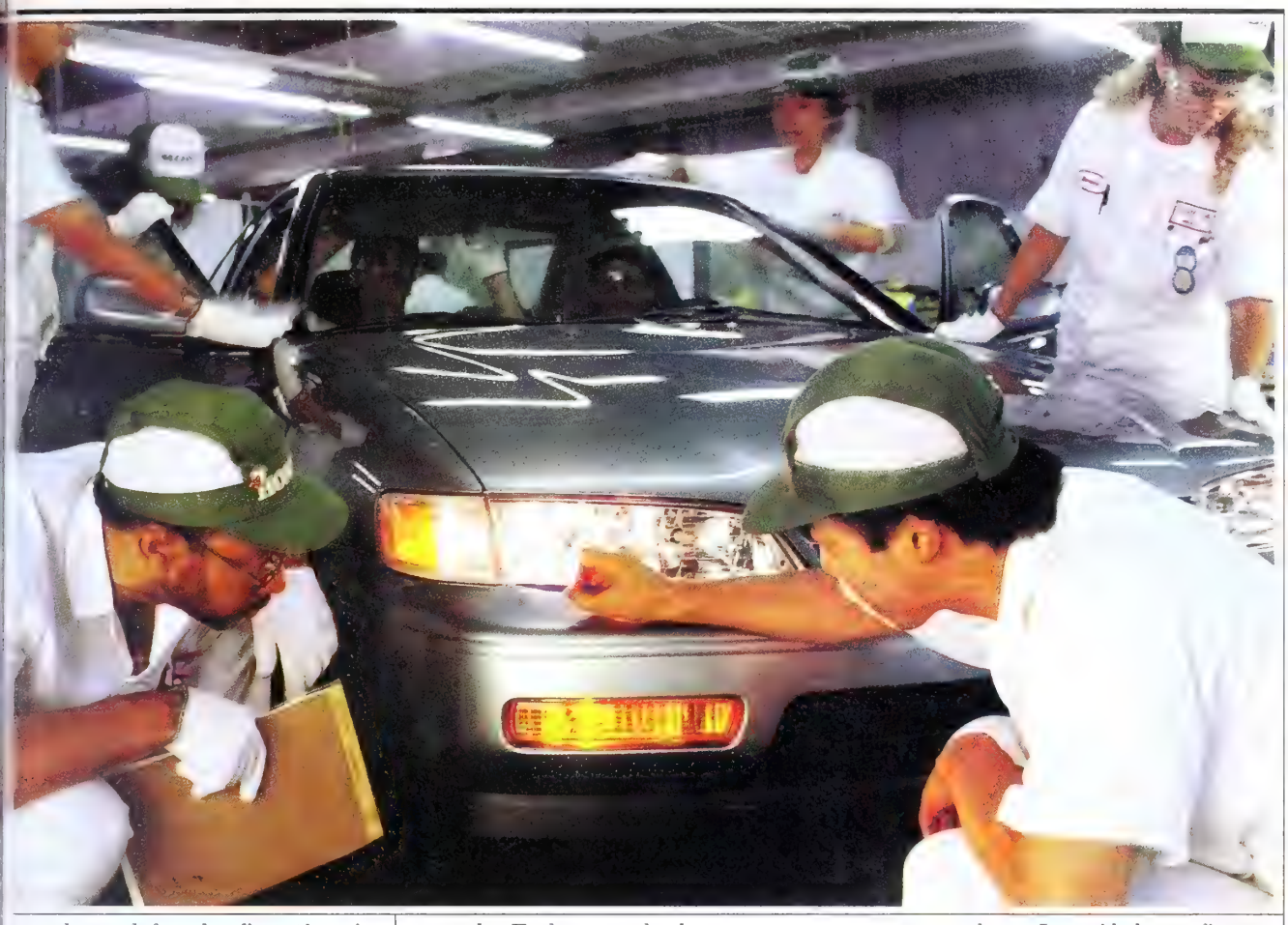
Sugiyama was determined to avoid such waste on the '94 model. But he also didn't want to churn out just another cheap car. "Value for money" became the CY mantra. The values he stressed were safety, in the form of air bags and a stronger body, and the environment—improved fuel efficiency. Honda executives felt they sold 400,000 records a year in the U.S. because customers prized good fuel economy. Honda stayed with four cylinders, though most competitors offer V-6s. The end 1994 EX models will have a more powerful four-cylinder engine that uses an advanced design—adapted from Formula One racing—to match the acceleration of a V-6 and best it in fuel economy.

That decision also reflected Honda's limited resources. Executives opted to launch the two-door version weeks after the '94 sedan, followed by a wagon within three months. This means Honda couldn't afford to offer a V-6 until the '95 model. Some sales staffers have even considered delaying the entire car for a year. But senior executives vetoed that, since Toyota and Chrysler were aiming at the Accord with the Camry and LH Sedan. "Right now, everybody's real glad that we had the new car ready when we did," says Scott Whitlock, executive vice president of Honda of America Manufacturing Inc. in Marysville.

AGING DRIVERS. Styling for the CY was another tough call. "Many of us thought the '90 Accord was too conservative," says Thomas Elliott, executive vice president at American Honda Motor Co., the U.S. sales group. Honda was also watching the average age of Accord buyers climb—to 44.5 years for the '90 model from 40 for the '86—while their average income jumped from $47,000 to $55,000. The team fretted that if the trend persisted, Honda would be making family cars for people who no longer needed them. It also thought family incomes would climb more slowly than in the '80s, making price more important. So Honda aimed the 1994 model at a younger market—35 years old for the sedan and 35 for the coupe. "With the CY, we knew there had to be a revolutionary change," says Elliott, who joined Honda fresh out of college in 1970, three months after the company began selling cars in the U.S. "We wanted more contemporary styling, especially for the two-door coupe."

In June, 1990, Honda kicked off the CY project with a meeting of more than





ENGINEERS INSPECT THE '94 ACCORD: HONDA'S AMERICAN TEAM MADE BIG CONTRIBUTIONS

people—and for the first time ined key U. S. and European players. he Hotel Urashima, Sugiyama laid his development priorities and Whit-, a former lawyer who had run Maille since 1985, said his plant needed ng early communication with Japan void the problems of the previous el. Then the U. S. design team unexedly presented a color slide show video of their concept. "Those guys always surprising us," says Koichi ta, chief designer at Honda's studio Vako, near Tokyo.

n intense rivalry soon developed ng Honda's four design studios. Each ed an image to set the theme for its y, submitted sketches in July, then rned to Wako with a quarter-scale el in September. The Americans—usa shark theme—came up with an agssive car with dramatically tapering s and no grille. Ichiro Yamaguchi of European team says a cheetah ined its design's narrow band of wins on a wedge-shaped body. Hirata's n started with a shooting star image quickly changed to an American bald e—to express a winglike shoulder, bulge, sweeping along the sides of car. Hirata also acknowledges that nodified his design after seeing the . team's sketches.

he final design meeting was held on . 18, 1990, at the Wako research grounds. Each group leader presented his $300,000 full-scale mock-up. Sugiyama felt the U. S. offering was too similar to other cars; Miyoshi found the shark imagery too aggressive, too American. "We don't want a car with American taste, we want Honda taste well-fitted to the American market," says Miyoshi. They huddled, then Hiroshi Zaima, the Wako studio chief, pronounced Hirata's look the winner. The CY's styling had been decided—a year earlier in the cycle than with the '90 Accord.

TWEAKING. The production side got an early start, too. In August, 1990, the first of nearly 60 production engineers and their families came to Japan to make sure designers paid as much attention to the manufacturing needs of the Marysville assembly plant and the Anna (Ohio) engine factory as they did to Japan's Sayama assembly plant and Wako engine factory (page 68). It was one of the biggest technical exchange programs ever by a Japanese company. White-coveralled American "associates," as Honda calls employees, toted three-inch-thick binders stuffed with more than 1,000 suggestions from their colleagues.

Some were minor tweaks. Marysville proposed a new design for the 48 plastic clips that attach rubber sealing around doors. It avoided sore fingers for line workers by requiring only one-eighth the previous pressure to install. Other suggestions held down costs. Michael Jett's engine team from Anna intervened when Japanese designers blithely eliminated a bracket on top of the engine. In Marysville's overhead-rack system, the bracket was used to transport the engine through the assembly process. A change would have cost thousands of dollars, so Jett's team persuaded the designers to leave the bracket on.

Sometimes, the Japanese and Americans agreed to disagree. Designers at Wako wanted to save money by using the same aluminum case on the Accord that holds the automatic transmission's torque converter on a Prelude. But Anna's engineers figured it would run them $800,000 for new dies to cast the case and $66,000 in new cutting tools to machine it. They proposed minor changes to the '90 casing, using existing equipment. So the Accord will have two different cases. By the same token, cost dictated building the optional V-6 in Wako, where Honda assembles a similar engine for the Legend. That could be done for $2 million in extra tooling—vs. $50 million for a new line at Anna.

The CY's designers also were more influenced than ever before by the skills

of their suppliers. In the summer of 1990, Honda sent engineers to 33 key subcontractors in Japan and 28 in the U. S., which together make parts that represent 60% to 70% of the car's value. In the U. S., this led to Rockwell International Corp. redesigning the rear cargo area of the wagon to add storage. "Instead of saying 'Here's the design,' we used theirs," says James C. Wehrman, Marysville's purchasing manager.

Each part also had to pass a grilling by senior engineers on the newly created Value Engineering Evolution Team (VEET). Why this shape? Why this material? Only after this ordeal could a designer sketch a prototype part. Both the supplier visits and the VEET drill took extra time. But by driving down the cost of each component, the process held procurement costs flat vs. the typ 10% increase for a model change. process also slashed postprototype sign changes by 20% vs. the '90 mo

Japanese carmakers are under he political pressure to buy more Am can-manufactured parts, so Honda m that a top priority. It says the local tent of the new Accord will be measured under new, stricter U

HOW A TEAM OF BUCKEYES HELPED HONDA SAVE A BUNDLE

One stifling summer day in 1991, a dozen or so American engineers gathered in a windowless room at Honda Motor Co.'s Sayama factory outside Tokyo. Secrecy was paramount, for scattered about lay hundreds of prototype parts from the company's Tochigi research lab. The Americans rolled up their sleeves and within hours assembled by hand a prototype of the 1994 Accord. In the past, at best a few U. S. engineers had been flown in to watch this ritual. This time, "it was like someone opened a candy shop," says Gary Crawford, an engineer from Marysville, Ohio. "Right away, we started listing up design changes."

The sweetest part is, Honda listened. The North American Task Group, as it was called, saved millions of dollars by helping design the '94 Accord so it can be manufactured easily at Honda's Marysville plant. Honda paid $500,000 each to move nearly 60 U. S. engine and production specialists to Japan with their families for two to three years. The Americans brainstormed with Japanese designers and reviewed preliminary sketches—up to two years earlier in the process than ever before.

LEARNING THE RULES. The relationship was rocky at first. When he arrived, "I said, 'no way'" it would work, grins Michael Jett, who led 13 members from Honda's engine plant in Anna, Ohio. Likewise, the Japanese were shocked by their eager visitors with their avalanche of questions. Daijiro Watanabe, senior engineer at the company's Wako plant near Tokyo, thought the Americans were coming for instruction. They did learn a few things: Don't be forceful, don't show emotion, and if you request a design change, you'd better back it up. "Some of these guys have been doing things the Honda way longer than I've been alive," says Jett, 31. He was impressed by old hands who tested for vibration and excess engine noise by ear.

After a break-in period, the partners got along well. In fact, the sides sometimes ended up being production engineers vs. design engineers rather than Americans vs. Japanese. Once, for instance, the designers suggested using a more heat-resistant aluminum for pistons. But Ohio couldn't do that without new equipment, and rejiggering the Wako line would have been costly. Watanabe and U. S. engineer Greg Benedict, who worked as a team, their desks facing each other's, talked the designers out of the change.

THE JETT FAMILY: VOLUNTEERS FROM HONDA SMOOTHED THEIR TRANSITION TO LIFE IN JAPAN

The main goal for Americans and Japanese alike was to flag designs that would cause trouble in Ohio. The Japanese designers initially eliminated a three-inch by six-inch bracket that strengthened the floor of the '90 model but wasn't needed on the '94. They didn't realize that at Marysville, the machine that inserts the front and rear window glass clamps onto that bracket to align the car. Marysville's Colin W ney calculated the cost of modifyi its assembly equipment at $1 milli So Wigney's team designed a thinn bracket, strong enough to work, that 12¢ per car cheaper than the old or

"HONDROID." Joining the progra meant making sacrifices. Colin a Robin Wigney temporarily handed o their new bed and breakfast in Wor ington, Ohio, to her parents. Carol Benedict gave up her golden retriev and her job as a social worker. Post to towns outside Tokyo, the famil had to cope with a n language and notorie Robin Wigney, a self- scribed "Hondroid," fou herself signing au graphs. For escape, the was Tokyo's Hard Ro Cafe and the Honda so ball team.

Honda smoothed t way with Japanese wi who once lived in t U. S. They handled em gencies such as when ana Jett's daughter A ley needed stitches in h chin. When Task For Senior Manager K Smalley's daughter, d perate to fit in at elem tary school, had to have precisely shaped bag her harmonica, a Ja nese volunteer stayed late to make it.

Honda plans to ma its exchange progra permanent—with Americans constan cycling through its Japanese plan That's a popular decision in Mar ville, where engineers who worked the '94 Accord now pick up a pho and take care of a problem direc with their Japanese colleagues—inste of going through an intermediary. "T fog has lifted," says Crawford. A that can only be good for Honda.

By Karen Lowry Miller in Wa

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The Honda Accord was the first foreign model to grab the top spot in U.S. sales. Some other winners:

FORD FAIRLANE 500 1957

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FORD ESCORT 1982-83

HONDA ACCORD 1989-91

FORD TAURUS 1992

BEST-SELLERS OVERSEAS, 1992

EUROPE	#1 VOLKSWAGEN GOLF	#2 OPEL ASTRA	#3 FORD FIESTA
JAPAN	#1 TOYOTA COROLLA	#2 TOYOTA MARK II	#3 TOYOTA CROWN

DATA JAPAN AUTOMOBILE MANUFACTURERS ASSN., COMPANY REPORTS, DRI/MCGRAW-HILL, *WARD'S AUTOMOTIVE YEARBOOK*

rules. That wasn't easy to reach. After evaluating U. S. sunroof suppliers, Honda chose ASC Inc. of Southgate, Mich. But nearly all its factories were in South Korea. So Honda persuaded ASC to build a $5 million factory in Columbus, Ohio, and muscled Yachio, its current supplier in Japan, into providing factory tours and selling some equipment to its new competitor.

SUITS AND TIES. As the CY took shape, Honda's troubles grew. In March, 1992, the company posted its third straight annual profit decline. And 1992 unit sales dropped 10.3% in Japan and 4.3% in the U. S. Kawamoto restructured further by splitting the company into four geographic regions—North America, Europe, Japan, and other markets—as the first step toward greater local autonomy. In Japan, he began shifting from automatic, seniority-based pay raises to a largely merit-based system—progressive management, maybe, but also a way to hold down payroll. A key management loss caused added pain. Executive Vice-President Shoichiro Irimajiri resigned abruptly in March, officially for health reasons, though he then moved to video-game maker Sega Enterprises Ltd. "It took me two months to recover from his departure," confesses Kawamoto.

The rest of the Japanese industry was also slipping into crisis. Companies that once churned out 87 steering-wheel choices for one model slashed options. They also tried to standardize parts. Honda had been one of the worst culprits because its engineers had so much freedom. So Kawamoto co-opted the top engineers, bringing them into headquarters where they report to him. Wearing suits and ties instead of white overalls, they keep their R&D colleagues in check and eliminate duplicate work among the Civic, Prelude, Legend, and other teams.

Through all this turmoil, Kawamoto kept an eagle eye on the CY. Hirata's rendering of side windows with no center pillar had been dropped. But Kawamoto was keen on the look. Finally, the rejected section was retrieved from a scrap heap and slapped back on the model to prove the designers right. During many visits to Tokyo, American marketer Elliott persuaded designers to change the shape of the car's headlamps and taillights and to retain folding side mirrors rather than using cheaper fixed ones. He also lobbied successfully for protective side molding, which the designers wanted to do without.

Inevitably, the efforts to balance fuel efficiency, safety, and aerodynamics clashed. To save weight, the engine team designed a new, lighter subframe to support the motor. But it pushed the engine slightly higher, and Hirata's hood wouldn't shut. In meeting after meeting, he defended his low front on styling grounds. But Wako's Watanabe argued that the CY needed the frame to help pare 127 pounds off the car to allow added safety equipment. After m than three months, Hirata gave in.

Then one snowy day in March, 19 Kawamoto took the first running p totype for a spin at a test track north Tokyo. Seeing it outside, someth bothered him. The nose, he decided, v too low and flat to balance with body and needed to be thickened or car would appear to tip forward. "St ing is the expression of our compar says Kawamoto. "In a time of confusi I make the final design decisions." giyama was horrified. "You saw it times, why didn't you notice it befor he recalls muttering. The cost was much. But when a leader who espou early decisions and tight schedules c tradicts himself, morale suffers. "We our spirit," says Sugiyama. "They w furious at me," concedes Kawamoto.

GRILLE WORK. For two weeks, Hir resculpted the clay model. Elliott jet over to look. Marysville fretted over specter of delays. Yet once the key p ers had gathered, "we all agreed he right," says Hiroshi Kuroda, then de ty project leader of design. So t raised the hood by three-quarters of inch and made the grille a quarter-i taller. Test-track engineers had a found that the engine overheated— that was solved with the larger gri All told, factory managers had los month reprogramming machine to

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which threatened to delay production.

Trouble also erupted in the body group. Marketing staffers argued that the upper rear corner on the sedan's back door angled down too sharply, so passengers brushed their heads. Designers clung to the steeply slanted line for its sporty look. But after a year of haggling and studying rivals, they relented. With just eight months to go until manufacturing began—far later in the process than normal for such a change—they lifted the top of the door by three-quarters of an inch. It cost only $40,000 in machine-tool reprogramming. In fact, Kuroda says he used less than half his $14 million design-change budget for the CY.

TOO COMFY. By November, 1992, prototypes were running from Los Angeles to Denver and from Death Valley to Las Vegas. Elliott took the wheel and said the CY had more the sluggish feel of a U. S. car than the crisp response of a Honda. In balancing the appeal to younger and older drivers, Honda had leaned "too much toward comfort instead of handling." Engineers scrambled to fine-tune the suspension. Kawamoto then stole through Los Angeles streets at night during a prototype test last March to make sure the CY handled right.

By then, the pressure on Honda was excruciating. Accord sales had plunged once Taurus-fighting incentives of $1,000 were removed. Honda advanced the sedan's production start by a week to Aug. 24. It pulled the coupe launch ahead by a month, to Oct. 1.

Next, Kawamoto hopes to apply the lessons learned from '94 Accord to a version made for Europe and possibly an Asian model. Given Honda's limited resources, he'll also likely strike new partnerships, such as a deal announced last December, to sell sport-utility vehicles built by Isuzu Motors Ltd. in the U. S. in 1994 under the Honda name. Managing such ventures is just one of his challenges. As Kawamoto charts a course into the 21st century, he must also beware of extinguishing the creative spirit that has sustained Honda for so long.

And he has to do it without the loyalty commanded by Soichiro Honda, whose charisma inspired streams of Honda employees and owners to lay flowers and gifts outside his home at his death two years ago. Still, by renovating the company, Kawamoto is in a way following the founder's precepts. "I rejected Mr. Honda's way, but that is the Honda spirit," he says. With new Accords on their way to dealers, he is about to discover how well his way works.

By Karen Lowry Miller in Tokyo, with Larry Armstrong in Los Angeles and David Woodruff in Marysville, Ohio

POWER, HANDLING, COMFORT—A SOLID SEDAN

So this is the model that's supposed to make the Honda Accord America's best-selling car again. Not likely. Of course, I said that about the last all-new one, the venerable '90. Too conservative, I said; too much like its predecessor. The public proved me wrong and bought more Accords than any other car, American or Japanese.

I may be right this time, and not just because of styling. The competition has simply gotten much better—witness the new Dodge Intrepids and Eagle Visions from Chrysler and upgraded products from nearly every Japanese rival. Meanwhile, Honda—unlike Ford, whose Taurus became the No. 1 seller last year—refuses to pad the numbers by unloading inventory at scant profits so rental-car fleets can offer weekend specials.

Still, a lot of drivers will like this car. To get an early peek, I drove deep into California's Mojave Desert, where Honda has built both a 7.5-mile test oval for Autobahn-like speeding and a 5-mile course that duplicates some of America's worst roads.

One of the best parts of driving a Honda is getting in. Intuitively, you know where the switches, knobs, and dials are going to be. This Accord takes the formula to the next step. Console radio and air-conditioning controls have been moved closer to eye level. And though there's a new passenger-side air bag, the glove box is generously sized. The cup holder also has been moved off the dash and back between the seats, so reaching for a Big Gulp no longer ejects the cassette. Such amenities don't extend to rear-seat passengers, however. To hold base prices to current levels—$14,330—Honda resisted building a bigger Accord. Despite improvements in toe space and knee room, the rear is still a tight fit.

NICE TOUCH. Mechanically, the Accord remains a pleasure. When you turn the ignition, this model sounds almost like a luxury car: There's hardly any sound or vibration. Maybe a Camry can do this, but no U. S. four-cylinder engine can—nor can it match this motor's pound-for-pound power. Lapping the track at higher speeds, I try evoke a sense that the engine isn't to it. Somewhere past 100 mph, I gi up. Honda will offer a V-6 next yea but I doubt the Accord will need it.

On the rough-road course, the A cord lives up to its reputation as t best-handling family car in the U. That's partly because of its race-ca type, double-wishbone suspension all four wheels and a new power-assi ed steering system that reacts to fo es on the tires instead of just t speed of the car.

Styling? Frankly, I wasn't i pressed. Too conservative for m That's because Honda is trying to a tract a younger generation of famil car buyers—without alienating tho who love the Accords they now driv The resulting wedge shape, with high rear deck that slopes to a lowe more aggressive nose, is sportier—b also vaguely European and, to me, u comfortably dated.

Still, it's a much more sophisticat design, more aerodynamic. And t car retains familiar Honda cues, su as a steeply raked windshield and stable, bottom-weighted stance. So gi en its target audience and aggressi pricing, Honda may have come up wi another winner—and a new benchma for family sedans.

By Larry Armstrong in Cantil, Cal

RATING THE NEW ACCORD

Graded on a scale from 1 to 5:

EXTERIOR STYLING Maybe what Honda needs, but not a head-turner.

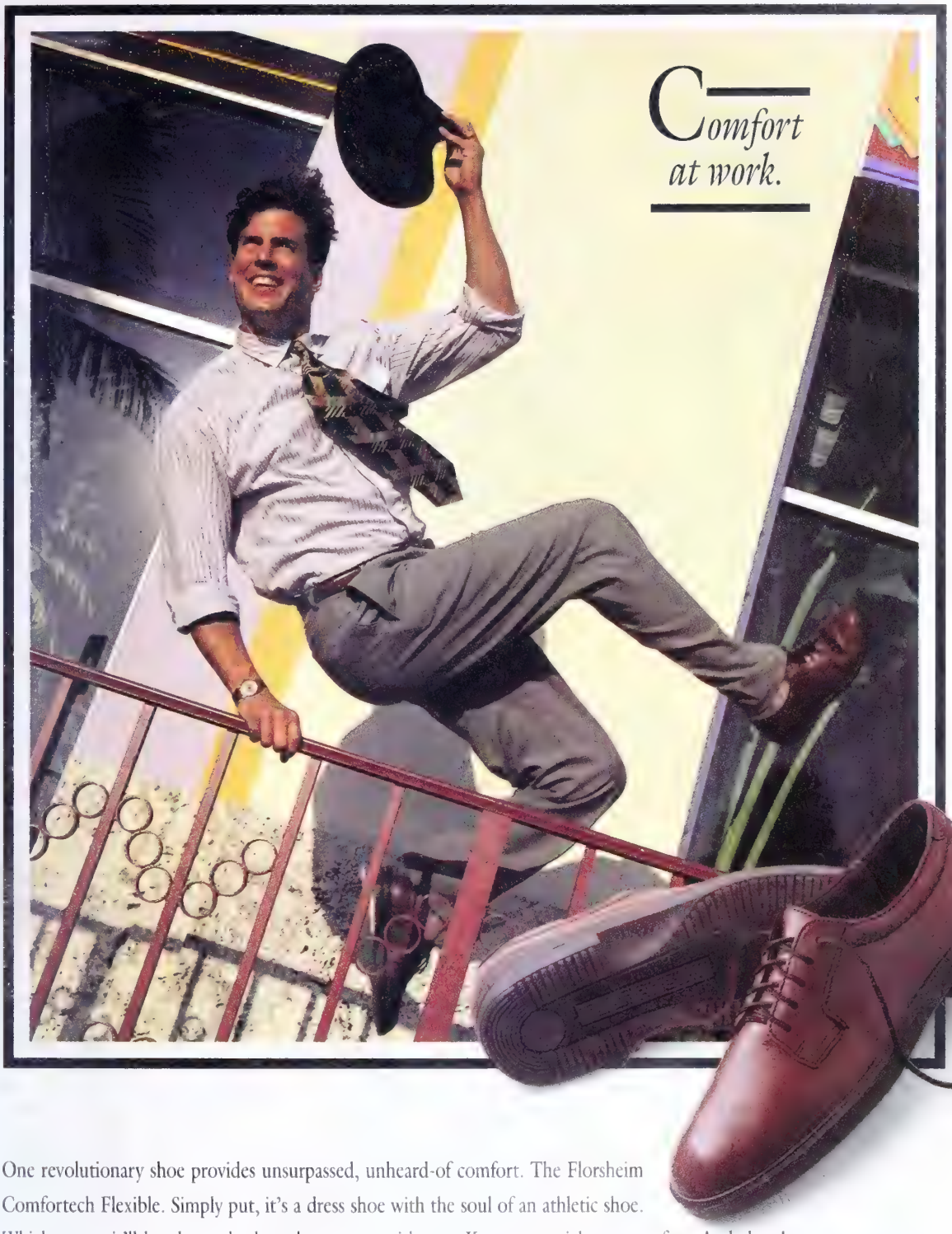
INTERIOR STYLING Simple, thoughtful layout. The best just got a little better.

ROOMINESS Fine up front, but rear seat is a tight squeeze.

NOISE, VIBRATION Vastly improved; now close to Camry standards.

HANDLING Pure Honda: Crisp, solid, very responsive for a family car.

DATA: BUSINESS WEEK



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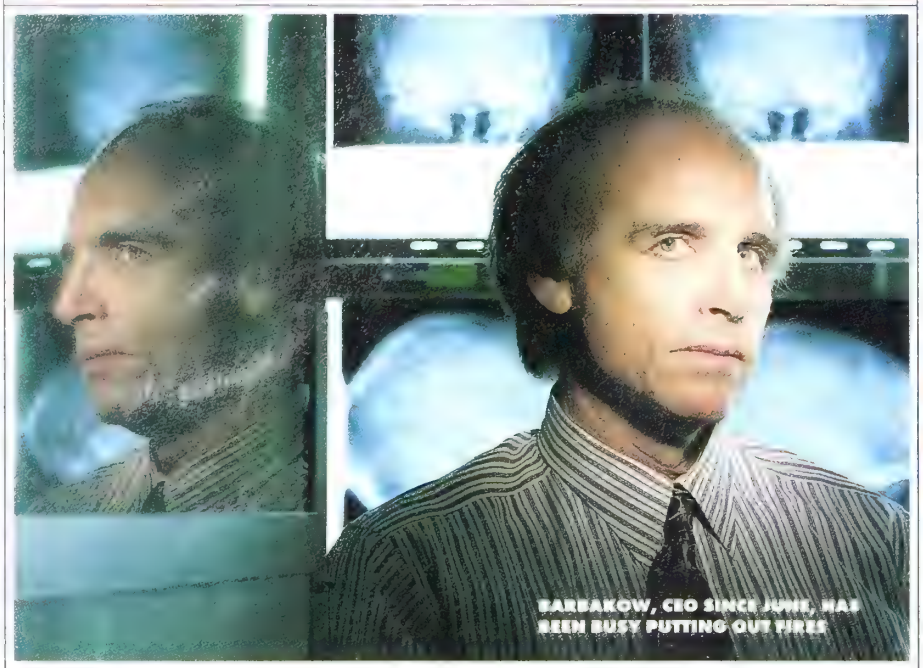

BARBAKOW, CEO SINCE JUNE, HAS BEEN BUSY PUTTING OUT FIRES

MIGRAINES FOR NATIONAL MEDICAL

The hospital and psychiatric chain now faces a criminal probe

Jeffrey C. Barbakow had a plan when he took charge of National Medical Enterprises Inc. on June 1. The company, a $4 billion operator of hospitals and psychiatric-treatment centers, had been battered by a barrage of lawsuits from insurance companies and former patients. But much of the underlying business seemed sound. If only Barbakow could smooth over the legal mess, NME would again look viable.

So much for plans. On Aug. 26, 600 FBI and other federal agents swooped down on NME's Santa Monica (Calif.) headquarters and 11 of its psychiatric facilities, seizing hundreds of documents. The government hasn't filed charges against NME, but sources close to the investigation say the FBI raid follows a two-year probe into possible criminal misconduct, including widespread overbilling and fraudulent diagnoses to extend patients' hospital stays.

Now, the question for Barbakow isn't so much succeeding in his new job as surviving. The federal probe could lead to heavy civil and criminal penalties at a time when the company is defending itself on multiple legal fronts (table). "The very viability of NME is now in question," says George Pillari, a health-care consultant with HCIA Inc. in Baltimore.

NME wasn't always such a sick company. During the 1980s, patients poured into its drug- and alcohol-abuse treatment centers, as employers expanded their health-care programs to include mental health. The company's found Richard K. Eamer, expanded NME's p chiatric hospitals from 28 in 1983 to in 1991. By 1991, NME's psychiatric bu ness accounted for 40% of the compan operating profits of $578 million and 3 of NME's total revenues of $3.8 billio

NME's relentless expansion, howev soon ran afoul of insurers' desire to costs. From 1987 to 1992, the numbe NME psychiatric beds grew 71%, to 6,9 but the average length of stay plung from 31 to 20 days. NME's operating p its fell to $413 million in fiscal 1993, e ed in May, as revenues flattened.

"GOLDEN RULES." In response, insur claim, NME's top management instruc hospital administrators to adopt "inta goals designed to lure patients into N hospitals for lengthy and unnecess treatments. Although the Justice De isn't elaborating, sources say the g ernment is investigating possible ille marketing and billing practices that the crux of lawsuits filed last y against NME by 19 insurers, includ Prudential, Aetna, and Travelers.

In one internal NME document ca "Intake Focus Golden Rules," which obtained by insurers, hospital admi trators declared: "Intake is our most portant system—nothing else matter we don't do that well." To that end, h pital staffers were urged in the do ment to admit fully half of all patie who came in for an evaluation. E bakow, a board member since Decemb 1990, says the document was put by lower-level managers. NME say was later recalled when headquart learned of its existence.

The FBI has also been interview former NME patients who are suing company for false imprisonment. Rol Andrews, a Fort Worth lawyer wh handling 68 such cases, claims NME g manuals instructed staffers to "push pain" by convincing parents that if t kids weren't admitted, they might c mit suicide. NME says the manual ha been used in years.

Dawn McClary is one pl tiff. McClary, now 20, says spent 20 months from Dec ber, 1987, to July, 1989, NME's Brookhaven Hospita Dallas after quarreling v her parents about staying late. After a three-week e uation, McClary alleges, was misdiagnosed with a derline personality disor and strapped to a wheelc or her bed for days at a t McClary's parents were vised she should stay Brookhaven for five years.

NME'S MOUNTING LEGAL WOES

- In September, 1991, Texas Attorney General sues NME, alleging overbilling at its psychiatric hospitals. NME denies wrongdoing but agrees to reimburse the state for its investigative costs and provide some free patient care.
- Former NME patients file more than 100 lawsuits starting in 1991. Suits allege patients were held virtual prisoners until insurance ran out. NME won't comment on patient treatment.
- NME sued by 19 insurers in summer of 1992 for overbilling as much as $750 million. After failing to reach a settlement, NME countersued on Aug. 19, charging restraint of trade.
- FBI and other federal agencies raid NME headquarters and psychiatric hospitals on Aug. 26 as part of investigation into possible criminal misconduct.

DATA: BUSINESS WEEK

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See next page for important additional information

when her insurance policy refused t
continue payments, McClary says sh
was finally released. Total cost to her i
surer: $298,000. NME says it's barred h
law from discussing patient treatment

Despite his brief tenure as CEO, Ba
bakow has clearly shaken up NME. Ove
the summer, with the support of othe
directors, he ousted several senior ma
agers and dumped six directors of th
18-member board, including Eamer, wh
was still chairman. Barbakow insists h
and other board members knew noth
ing of the scandal brewing at NME. Ear
er couldn't be reached for comment.

Analysts and health-industry exec
tives speculated that Barbakow's ne
step was to seek a buyer. It was a pla
sible scenario. Barbakow, 49, was a fo
mer investment banker at Merrill Lyn
& Co. and a well-known figure on th
Hollywood deal scene. Indeed, Kir
Kerkorian hired him in 1990 to se
MGM/UA studios. The sale netted Ba
bakow a cool $20 million.

NME also has some attractive asset
its 35 general hospitals. In fiscal 199
their operating profits rose 15%, to $2
million, as revenues climbed 11%, to $2
billion. If NME could rid itself of its ps
chiatric centers, the hospital chain mig
look attractive to a stronger compe
tor. Ironically, a source close to the fe
eral investigation says the FBI raid w
prompted in part by fear that NME w
about to close several of its psychiatr
facilities, which might have made the
records harder to find.

LEGAL BILLION. Barbakow denies that h
wanted to sell NME. And he insists th
company isn't doomed. Not surprising
NME's largest shareholders agree. "Ba
bakow has his head screwed on righ
says institutional investor Michael Pric
who controls 5% of NME's shares. "He
make sure no more nonsense goes on
Price estimates that NME stock should
trading at 20. It's now at around 8.

Small wonder NME is being devalue
Finding buyers won't be easy at a
price. At a time when Washington
making health-care fraud a top prio
ty, the company isn't likely to get
lightly. Criminal charges could lead to
boycott of NME by insurers or to t
government barring its hospitals fr
Medicare payments. Then there are p
sible civil fines. Analysts estimate th
the total price tag to resolve NME's leg
troubles could approach $1 billion.

Barbakow says he is cooperating fu
with the government investigation. "W
want to put all this behind us once a
for all," he says. Undoubtedly true. B
it's going to take more than just so
planning to rescue NME now.

*By Eric Schine in Santa Monica, Cal
with Catherine Yang in Washington*

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STRATEGIES

TIMBERLAND COMES OUT OF THE WOODS

Fashion and better controls put the bootmaker back on the path

During the late 1980s and early 1990s, Timberland Co. stumbled so often you would have sworn its executives were wearing the company's famous boots on the wrong feet. Inventories piled up, while retailers fumed about missed shipments. A push into apparel stalled when consumers shunned the pricey fashions. One analyst summed up his disgust in a report headlined: "Great products. Lousy company."

It's not lousy anymore. Thanks to changing consumer tastes and improved operations, Timberland, in Hampton, N. H., is a hot company these days. Analyst Steven B. Frankel of Adams, Harkness & Hill Inc. in Boston estimates that profits will soar 62% this year, to $21 million, as revenues rise 41%, to $410 million (chart). Even better for investors, the stock has doubled since June, to about 60.

SIDNEY AND JEFFREY SWARTZ: WORK SHOES ARE IN

The shift in Timberland's fortunes can be explained in part by the changing winds of fashion. The casual, outdoorsy look that Timberland cultivated is trendier than ever: Athletic shoes are fading, and work boots are in. Although Timberland has traditionally been strong with under-40 males, the latest craze embraces all ages and sexes. "They're the hottest boots," says Jill Swid, the 24-year-old fashion editor of *Spin* magazine, a bible for the Generation X set. "It's your staple shoe for the year. Some of my friends are even wearing them with sun dresses."

LACED TIGHTER. Just as important, Timberland seems to be cleaning up its act. Purchased by Nathan Swartz in the early 1950s and taken public in 1987, family-owned Timberland had a reputation for loose management. Inventory controls were virtually nonexistent. So was the notion of customer service. Robert T. Nunn, executive vice-president for footwear at Nordstrom Inc., says buyers used to harangue Timberland constantly about slow deliveries.

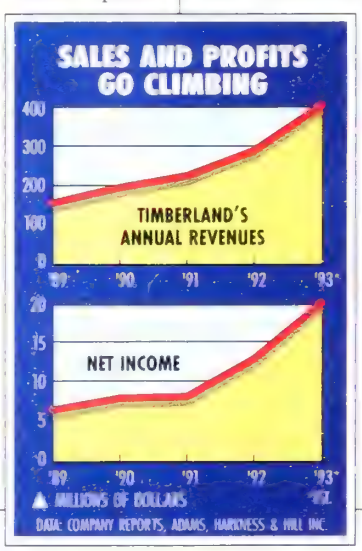
That's changing under Chief Operating Officer Jeffrey B. Swartz, the 33-year-old grandson of Nathan and the son of current Chairman Sidney W. Swartz. Timberland's controlling shareholder. After five years running various operations, the younger Swartz, who has an MBA from Dartmouth College's Amos Tuck School, was given day-to-day management control in early 1991. His first task was to tighten operations. By slashing the number of products nearly in half and filling orders pron ly, Swartz has reduced inventory: T berland is expected to turn over its ventory more than three times this y which is close to the industry aver and up from 1.8 turns in 1990.

That has cut Timberland's costs, h ing it trim some of its high prices. H lier this year, the company cut the p of its Weatherbuck line—a casual, wa proof version of men's dress shoes. T now retail for $100 instead of $135. move, intended to capitalize on the s toward more casual office dress am white-collar workers, has more than bled sales. "It was aggressive and pears to have been smart," says Joh Thorbeck, president of rival Rock Co., owned by Reebok International

RUGGED IMAGE. The father-and-son t hopes it can eventually double the c pany's profit margin of 5.5%, half tha industry leaders, through cost-cut and more efficient manufacturing. T also want to boost sales by expand their apparel business. Timberla clothing accounts for just 15% of s and has suffered from a lack of fo Earlier clothing lines deviated into r chandise that was far from the con ny's rugged image, such as suede j ets. "I started calling my dad Gio and he started calling me Enrico," j Jeff. They're now concentrating on c ing items that echo the sturdy, time qualities of Timberland's footwear: le er belts, waterproof leather jackets, other outerwear for foul weather.

One big question is whether Tim land has halted the debilitating revol door in its executive suite. At leas top managers came and left from 198 1991, most having been fired. The rent CFO also is leaving. Former ex tives blame Sidney and Jeff for guidance and reluctance to share po Jeff says he has learned from past takes and predicts the current man ment team will be more stable. the outdoors look ing favor, competi is stiffening. Athl shoe companies, suc Nike, are making n hiking styles. Prob more worrying is fickleness of fash Most analysts bel that it's unlikely berland can keep u dizzying growth much beyond 199 1995. Still, for the being, Timberland f ly seems to have profitable stride.

By Mark Mare in Hampton, N. H.



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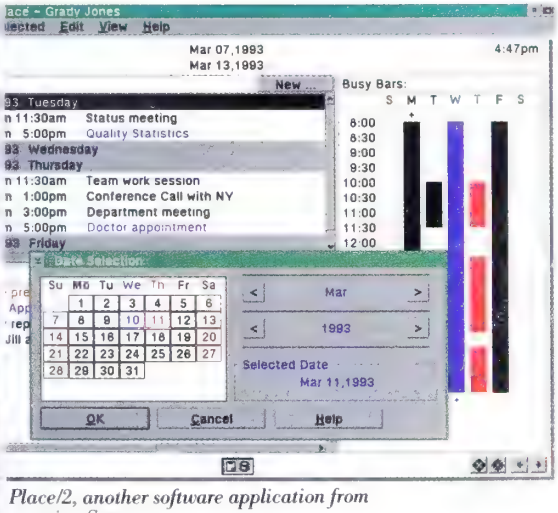

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INVESTMENT BANKING

'THE ARB BOYS' RIDE AGAIN

A superstar group of ex-Solly bond traders launches its own firm

For months, John W. Meriwether's next move has been the subject of intense Wall Street gossip. The former Salomon Brothers Inc. bond trader and vice-chairman has been on the sidelines ever since the Salomon Treasury bond trading scandal erupted in August, 1991. Best known for challenging former Salomon chieftain John H. Gutfreund to a daring game of liar's poker—described in the book of that name by Michael Lewis—Meriwether was largely responsible for assembling a group that produced huge trading profits for Solly.

Now, Meriwether will be challenging Salomon's bosses in another way. He is on the verge of announcing the launch of a trading firm that will include three top traders who recently resigned from Salomon, says a source close to the group. The firm will be called Long Term Capital Management and will be up and running Jan. 1. It is already headquartered in Greenwich, Conn., in the old offices of Phibro Energy Inc., a Salomon unit, at 600 Steamboat Road. LTCM is planning a trading floor for 30 traders and a total of some 100 employees in Greenwich, London, and Asia.

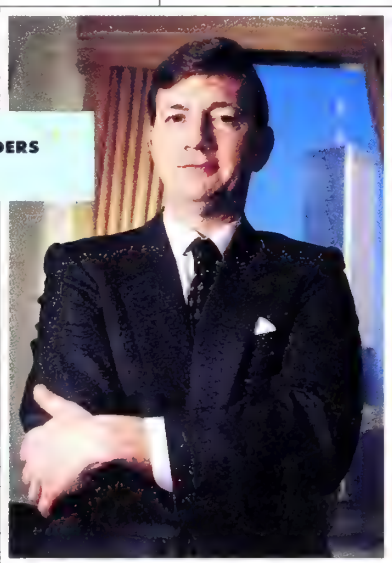
BIG FROG. Not only will the new firm vie with Salomon for proprietary trading profits but it will join the ranks of the biggest hedge-fund managers. "It will become a major factor on the financial landscape. It should be an entity as powerful as Soros," says one rival, referring to George Soros, who runs $7 billion.

Meriwether, who rarely talked to the press while he was at Salomon, declined BUSINESS WEEK's request for an interview through his spokesman, Peter Rosenthal. So did Eric R. Rosenfeld, Victor J. Haghani, and Gregory D. Hawkins, Meriwether's new partners, also speaking through Rosenthal.

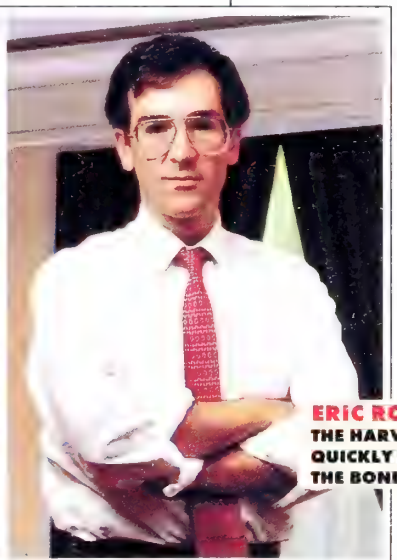
But market participants, dealers, and analysts are talking. "Meriwether's reputation is so great people love the opportunity to invest with him," says one government dealer. "They are very smart and very well respected," says another. The talk is that the firm already has commitments for over $1 billion and is well on its way to raising $2 billion before yearend.

Most of that is coming from foreigners and foreign institutions. Meriwether was recently in London seeking financing from Lord Jacob Rothschild, the British merchant banker, who will "look closely" at investing, says Clive Gibson, a director of Lord Rothschild's investment company, St. James's Place Capital PLC. Meriwether's "intention is to raise significant amounts of capital and run this as a truly global fund, though not the kind of bet-the-ranch fund some people are developing," adds Gibson.

The four ex-Salomon traders have put up over $50 million of their own money, say sources close to them. The firm will be managed as a private, nonregistered fund with under 100 investors.



JOHN MERIWETHER
FROM GREENWICH, HIS TRADERS SHOULD WIELD CLOUT FROM LONDON TO TOKYO



ERIC ROSENFELD
THE HARVARD PROFESSOR ROSE QUICKLY AT SALOMON TO CO-HEAD THE BOND ARBITRAGE GROUP

LTCM's biggest selling point is the s
lar record of Meriwether's bond a
trage group at Salomon. Since 1990,
"arb boys" have been responsible
87% of Salomon Brothers' profits. T
small group of perhaps 30 people in N
York, London, and Tokyo generated
tax earnings of $485 million in 1990,
billion in 1991, and $1.4 billion in 19

It was Meriwether who was at
heart of Salomon's bond arbitrage d
Starting in the mid-1980s, he was on
the first on Wall Street to hire acad
ics and blend their mathematics
computer skills with his own trad
instinct and market knowledge.

GRAND EXIT. A key Meriwether hire
Rosenfeld. A former Harvard busi
school professor with a finance
from Massachusetts Institute of T
nology and a lucrative stint as a b
ness partner of Mitch Kapor,
founder of Lotus Development Co
Rosenfeld signed on with Salomo
1984. He quickly rose to co-head
bond arbitrage group
August, 1991, he repla
Paul W. Mozer, who
ported to Meriwet
and whom Salo
blames for causing
Treasury bond rig
scandal, and took
Salomon's governm
bond operations. He
built the department
was promoted to the
ecutive committee,
resigned last January
ter talks about M
wether's return to S
mon faltered.

Haghani, who g
standing ovation on the April da
resigned and left the cavernous S
mon bond trading floor, and Hawk
who resigned in July, 1993, were
of Salomon's most profitable trad
Myron S. Scholes, the Stanford Uni
sity mathematical economist, will
be a LTCM partner. Scholes resig
from Salomon in August.

Meriwether's group is known f
highly quantitative style called con
gence trading. This strategy boils d
to discovering anomalies between
kets and betting that in months or
years, the relationship will retur
normal. While its expertise lies main
bonds, LTCM can be expected to trac
a variety of instruments.

The widely accepted view is
Lawrence E. Hilibrand will join L

PHOTOGRAPHS

he leaves Salomon. Hilibrand, ed the "$23 million man" for his pay, has announced he will exit ıon at yearend. "There have been scussions" with Hilibrand, says Ro- al. Hilibrand declined comment. lomon insists that losing its top ng talent won't harm its profits s even hopeful that Meriwether's) will become customers of Sal- omon. The firm has quickly installed Dennis J. Keegan, a savvy trader who co-headed Solly's London operations to replace Hilibrand as head of the arb group.

But many analysts see Salomon taking a hit. Even though Salomon has a deep bench and lots of market clout, "undeniably, having these top guys leave will hurt proprietary trading," says John Keefe, president of Keefe Worldwide Information Services Inc. "The Street better be ready for these guys," says one trader. "They are direct competitors to Bankers Trust, Salomon, American International Group, J. P. Morgan." And on Wall Street, wherever there is a winner, there is a loser.

By Leah Nathans Spiro in New York, with Paula Dwyer in London

ETS & INVESTMENTS

'ARED OF GETTING ZAPPED | THE UTILITIES RALLY?

s abound, but the runup probably has a lot of juice left

ield" is fast becoming a four-letter word on Wall Street. Picayune bank and money-mar- ates and dividend yields—2.7% for tandard & Poor's 500-stock index—sent investors up the wall—all the to the light switch. Electric power anies are drawing investors to their payouts, and that has led to the in- ble quandary: Is there still time to on to the power-company rally?

r now, electric utilities are hot. share prices have climbed 14.6% g the year to date, vs. a rise of for the S&P 500. The result is that r companies are beginning to look y by a number of valuation meas- Overall, they are trading at some of book value—pretty close to a d. If interest rates begin to climb a little, skeptics argue, sharehold- ill get creamed. Power companies long been sensitive to rate changes, ıse of their massive, debt-financed cts.

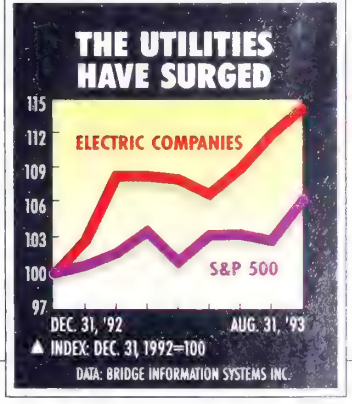
BASTION? Indeed, utilities are find- substantial downside to the inter- ıte declines. State utility commis- rs, noting the decline in utilities' al costs, are reducing permitted increases. The prevailing wisdom e Street can be summed up in one : Avoid. "Utilities simply don't have rowth prospects or ıg power to appeal ," says Scott Black, runs equity portfo- at Delphi Capital ıgement in Boston. ue, a resurgence in ion fears will cause r-company stocks ank. But barring eventuality, the hood is strong that ally in utilities has g way to go. One reason is what might be called the "last bastion" theory: Yield-starved investors will continue to buy utility stocks because there aren't many other options. Another is that since the yields are considerable, they will provide a cushion against share prices languishing or declining.

SOME TEMPTING POWER PLAYS

	YIELD
ALLEGHENY POWER	5.9%
ATLANTIC ENERGY	6.2
CINCINNATI G&E	5.9
INTERSTATE POWER	7.0
LILCO	6.0
NORTHEAST UTILITIES	6.4
TEXAS UTILITIES	6.5

DATA: ANALYSTS' REPORTS

In fact, despite their handsome performance, utility stocks aren't really as expensive as they may at first seem. Or at least, not when they are compared with 30-year Treasury bonds, which are yielding 6.1%. The yields on utility stocks now exceed those on long bonds by a mere 60 basis points—half the average spread in recent years. Thus, investors don't have to give up much yield to reap the harvest of power-company growth. Maura Shaughnessy, the portfolio manager at MFS Utilities Fund in Boston, notes: "Electric utilities are looking inexpensive vis-à-vis bonds."



Another factor that could help utility investors is a fundamental change in the economics of the industry. While it's still true that the fortunes of power companies are tied to the prevailing interest rates, the tie-in is becoming less and less important. As electrical power plants have come on line and started to pay for themselves, debt levels have come down. With utilities' debt declining, they are not as sensitive to changes in interest as in the past. "Now that they're paying down their debt, an increase in interest rates won't hurt them as much as it used to years ago," says Geraldine Weiss, publisher of *Investment Quality Trends*, a La Jolla (Calif.) newsletter that tracks dividend-paying stocks.

GLAMOUR. But investors who chase utility stocks on the basis of yield alone may suffer for it down the road. High yields are often in danger of being cut, particularly when the payout ratio—the amount of earnings paid in dividends—approaches 100%. But there are stocks whose yields are generous but are, nevertheless, widely viewed as sound investments (table). William I. Tilles, who follows power-company stocks at Dean Witter Reynolds Inc., suggests investors look into companies offering dividend growth, such as Long Island Lighting Co., which offers a 6.0% yield and regular dividend hikes. He also favors Baltimore Gas & Electric Co. and Detroit Edison Co.

One sign of utilities' glamour is that two of them are involved in a takeover saga—even in this era when mergers are rare. Cincinnati Gas & Electric Co. is seeking to merge with PSI Resources Inc., a Plainfield (Ind.) holding company, in a proxy battle that is being played out in full-page ads in financial newspapers. The Street has generally frowned on the merger, with Argus Research recommending sale of both stocks because of regulatory uncertainty.

But here again, Wall Street's chariness toward power companies may be shortsighted. Shaughnessy and Weiss note that the deal has a limited downside and that both companies are paying attractive dividends, while the deal wends its way through the regulators. A 6% yield is hardly a key to Fort Knox, but for most investors nowadays, it's, well, money in the bank.

By Gary Weiss in New York

Commentary/by David Greising

SHORTSIGHTEDNESS IS SHORT-CIRCUITING CHICAGO'S GLOBEX

Even in the Chicago commodity pits, where traders still use a 150-year-old system of hand signals and shouting, exchange leaders know that they must embrace technology to stay in the game. That's why they hired Reuters Holdings PLC to create the Globex trading system. Launched with great fanfare in mid-1992, the system had two purposes: to introduce computerized trading to Chicago while also handling after-hours orders that otherwise could have been traded at overseas bourses. But Globex has been a big dud.

More than a year after its launch, Globex has mustered only meager trading volume, the leasing of Globex terminals is far behind schedule, and just one foreign bourse has signed on to what was supposed to be a worldwide system linking all of the world's major exchanges.

BIG BLUNDER. Now the saga is going from bad to worse. Just ask the London International Financial Futures Exchange. LIFFE wanted badly to join so it could offer its popular "bund" contract, based on German bonds, to traders at 385 Globex terminals in Chicago, New York, Paris, London, and four other cities. But then, on Aug. 10, came a veto on the bund contract from the Chicago Board of Trade, which operates Globex in partnership with the Chicago Mercantile Exchange and Reuters. That caused LIFFE to withdraw from Globex. Why the veto? The CBOT saw a potential conflict with LIFFE, where the bund futures had a turnover of nearly 4 million contracts in July. True, the CBOT doesn't trade the bund now, but it might want to—someday. Maybe.

It's an amazing blunder. LIFFE could have provided Globex a desperately needed boost. The only exchange that contributes meaningful volume to Globex is also foreign, the Marché à Terme International de France (MATIF) in Paris, which accounts for 85% of Globex' average daily volume of about 30,000 contracts. And the rationale for banning the bund was specious. The Board of Trade might launch a bund contract to capitalize on its strong showing in other interest-rate instruments such as Treasury bond futures. But to lure away substantial bund volume from LIFFE, the CBOT would have to overcome the first axiom of futures trading: The one who is first always wins.

Chicago's exchange leaders have only compounded their errors. They have engaged in public finger-pointing and name-calling, blaming each other for the dispute with LIFFE and Globex' problems in general. Board of Trade Chairman Patrick Arbor has unfavorably compared Merc Chairman John F. Sandner's performance as Globex chairman to that of his predecessor, Leo Melamed. Sandner, in turn, released a copy of a letter to the press that spelled out Reuters' dissatisfaction with Arbor's conduct on the LIFFE episode. Arbor then tried to make the withdrawal of LIFFE appear to be the result of a number of broader issues. But that's not the case. There's only one reason behind LIFFE's withdrawal: the CBOT's veto of the bund. "With the Chicago Board of Trade holding a veto, there's not much point in our talking to Globex," says LIFFE Chairman Nicholas J. Durlacher.

The Chicago exchanges can ill afford to lose potential volume on Gl ex. They may have to reimburse R ters next summer if a shortfall p sists in the leasing of Globex termin Indeed, the entire Globex partners may well dissolve, given various cape clauses that open next year founding members, most of them t to Globex' trading volume. Reut won't walk away from its $100 mill investment in Globex, but the C certainly might, taking its potenti lucrative Treasury bond futures c tract with it. That would vitally d age the Globex system.

Can Globex be sav Perhaps. If the exchan put aside their bickering promote Globex where should do well, in Eur and the Far East. If board drops its prohibit against LIFFE's German b contract. If the Chicago changes allow Globex tr ing to begin immediately ter their trading pits clo which would prevent tr ers from drifting away in hour or more between closing of Chicago's pits a the Globex opening. U mately, Globex won't achi its potential as a global tr ing system unless the C cago exchanges allow Glob to be open for busin even while there's act in their own pits.

The leaders of Chicag futures exchanges don't have m choice. They have already seen th control of world trading volume in tures drop from an 82% share in 1 to less than 50% today. Internal s veys of members indicate traders' comes are declining, even as wo trading volume is soaring. Those me ber firms that haven't already be absorbed in mergers are seeing th profits slide. Recently, the exchan have promoted Chicago as "The R Management Capital of the World." I the Chicago futures exchanges risk l ing their franchise if they don't dr their petty squabbling and move ward a truly global trading system.

Greising covers the Chicago comm ity exchanges.

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BANKING

THE GRINGO BANKS ARE DROOLING

They're ready to swoop into Mexico once NAFTA is approved

Pity Mexico's bank customers. To pay electric bills or credit-card balances, they must wait in long lines that snake out of bank branches onto sidewalks. Bounce a check? That's $75. And if they're lucky enough to be approved for a mortgage or a car loan, it'll cost 30% a year in interest.

With competition sparse, Mexican banks have been making money hand over fist since privatization began in 1991 after 10 years of government control. Thanks to the demand for banking services and the overall growth in the economy, the country's biggest banks posted returns on equity of as much as 33% in 1992 and charged in excess of 7% over their borrowing costs for loans, far more than banks in the U. S. (table). Now, though, the Mexican banks face a new challenge: competition from foreigners.

If the North American Free Trade Agreement is approved by Congress, U. S. and Canadian banks will be able to open full-fledged subsidiaries in Mexico to compete head-on with Mexican banks on Jan. 1. Right now, foreign banks are only allowed to operate representative offices, except for Citibank, which has had branches in Mexico since the 1930s. "If they were to come in today, they would represent a very serious threat of competition to Mexican banks," says financial analyst Felix Boni of Interacciones, a brokerage in Mexico City.

GOING SOUTH. Already, the list of U. S. and Canadian banks eyeing Mexico reads like a Who's Who of Banking: Citibank, Chemical Bank, Chase Manhattan Bank, Morgan Guaranty Trust, Bankers Trust, Bank of America, Midland Bank, the Bank of Montreal, and the Royal Bank of Canada. The North American units of European banks, such as Deutsche Bank and Swiss Bank Corp., are looking as well. Mexican Finance Under Secretary Guillermo Ortiz expects some 20 foreign banks to request licenses in early 1994.

Chemical and Chase are among the first to put their cards on the table. John S. Donnelly, Chemical's Mexico country manager, will be doubling his staff to open a subsidiary in March, 1994. "If NAFTA goes through, this will be a very exciting market to be in," he says. Chase Country Manager Manuel Peña-Morros hopes to use the bank's planned subsidiary to snare corporate finance and capital markets business.

Smaller U. S. banks are also interested. International Bank of Commerce in Laredo, Tex., with assets of $2 billion and 27 branches, mainly on the border, plans to expand south soon and perhaps open retail branches in three to five years. "We're more interested [than many other small banks] because we're at the front door of this whole proces says IBC Chief Executive Dennis E. Ni on. To open a subsidiary, he say "you're going to have to go in the with a serious commitment, which we' prepared to do."

RUNNING ROOM. Under NAFTA, U. and Canadian banks will be able to op ate in Mexico as if they were Mexic institutions. But each foreign bank w have to limit its market share to 1.5% the banking system's total assets. A foreign banks combined must keep the market share under 8% for the fir year, but the share can grow to 15% 1999. That leaves plenty of room for U. S. banks to expand.

Most foreigners are not expected go into retail banking now. Instea they'll focus on areas where they ha advantages: cross-border mergers a acquisitions and foreign e change transactions. Ban specializing in trading, su as Morgan and Banke Trust, will likely concentra on equities and sophisticat peso transactions now ha dled in New York.

The Mexican market not without pitfalls. Me can banks are dogged l problem assets: The ban ing system has an avera 7.2% bad-loan portfolio, from around 4% a year ag and some banks have much as a 21% nonperfo mance rate. Many are al finding that their technolo is seriously out of date, a they spent $2.4 billion technical modernization the past year alone, Or says.

U. S. banks that ventu south will run into the own infrastructure problems. For exa ple, if they're to open trading desk they will need fiber-optics technolo and reliable phone service, both scar commodities in Mexico. And operating Mexico can be expensive: Office spa in Mexico City, the country's banki center, costs up to $50 or $60 a squa foot, nearly double New York prices.

Still, the attraction is there. Cynth Harlow, an analyst with Thomson Ban watch Inc. in New York, says Mexi is an "underbanked" market who financial-services sector is expect to grow 10% to 15% a year for t next two to three years. Provid NAFTA is approved, that will great news for adventurous Ame can banks.

By Geri Smith in Mexico Cit with Wendy Zellner in Dallas

BANK PROFITS SHINE IN MEXICO

1992 FIGURES	BANAMEX	BANCOMER	LARGE U.S. BANKS
Return on average assets	2.3%	2.0%	0.9%
Return on average equity	32.8%	27.9%	13.4%
Net interest margin	7.4%	7.1%	4.5%

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utual Fund Forecaster (March 4, 1993), corroborated by the independent rating service CDA/Wiesenberger (*Mutual Funds Update*, ember 31, 1992). CDA/Wiesenberger recognized Pioneer Fund as a top performer, noting that Pioneer Fund turned $10,000 into more n $10 million for the period January 1, 1940 through December 31, 1992 - outpacing all 29 other long-term funds in its universe. All fund formance assumes the reinvestment of all distributions and the deduction of the maximum sales charge of 5.75% (10, 5 and 1 years average ual total returns through June 30, 1993 are 10.58%, 9.46% and 8.56% respectively). Past Performance does not guarantee future lts. Return and principal value will fluctuate and an investor's shares, when redeemed, may be worth more or less than their original cost. adjustments have been made for income taxes payable by shareholders.

BY GENE G. MARCIAL

THE PUSHING AND PULLING OVER RODMAN

The buyout battle over Rodman & Renshaw Capital Group, a quiet little securities broker-dealer in Chicago, is heating up. Predictably, several investor groups have been snapping up Rodman shares, which shot up to 7¾ from 5¾ in mid-July.

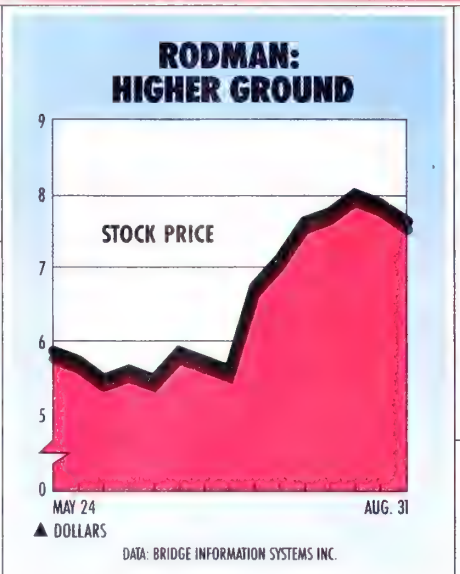
"Rodman was undervalued as it was, but with the stock now in play, it is doubly attractive," says one New York money manager who figures the stock is worth at least 12 in a buyout. "And a buyout there will be," he adds, "judging by the players that have emerged."

Here's the story so far: Dan Purjes, chairman and CEO of Josephthal Lyon & Ross, a New York securities firm, proposed a merger to Rodman Chairman and CEO Kurt Karmin in late July. That caught the attention of California investor Marshall Geller, who quickly accumulated nearly 10% of the stock. Geller subsequently announced that he will seek to oust management and put up his own directors. Meanwhile, another suitor has popped up: Fahnestock Viner Holdings, a 112-year-old New York securities broker. All this activity prompted Rodman to hire New York investment bank Rothschild Inc. to evaluate the sudden interest.

NEAR-PERFECT FIT. The latest scoop is that Josephthal is believed ready to sweeten its offer should Fahnestock jump in with its own takeover bid. One analyst believes Fahnestock will make its move after Rothschild makes public its "assessment" in mid-September. Rothschild will voice its opinion on the Josephthal merger offer, which is the only formal proposal so far.

Another analyst says Josephthal's bid consists of cash and stock—plus an offer to pay a special cash dividend to shareholders. Josephthal CEO Purjes says the fit between the two companies is near perfect because "Rodman is strong in certain operations where Josephthal is weak." Purjes says that Josephthal could make efficient use of Rodman's retail brokerage operations in the Midwest, as well as the money-management operations.

Rodman also engages in commodities brokerage, investment banking, real estate partnerships, and insurance. Revenues totaled $90 million in the year ended June 30. Per-share earnings are expected to rise to 40¢ a share in fiscal 1994 from 1993's 34¢.



Fahnestock and Geller aren't likely to just walk away. Fahnestock has deeper pockets than Josephthal, with a capital base of $60 million vs. Josephthal's $16 million. And Geller has nothing to lose, notes one analyst, who believes that with $3 million worth of Rodman shares, "this investor [Geller] is determined to become the chairman and CEO of Rodman."

SMOOTH RAZOR PLAY?

Looking for the next Gillette? Some pros think they have found a Gillette-in-the-making in American Safety Razor. The 118-year-old company just went public in June at 12 a share. This maker of razors and blades, including Personna and GEM, "dominates the private-label razor-blade market in the U.S.," says Joe Kozloff, an analyst at Smith Barney, Harris Upham, which managed the offering.

At one time a unit of Philip Morris, American Safety was acquired in a leveraged buyout in 1989 by Jordan Co. The LBO resulted in $100 million in debt, so the new owners channeled much of the cash flow to debt repayment. Even so, "recent results have been quite solid," notes Kozloff, who figures the improving balance sheet will allow management "to refocus its attention on growing the company."

Kozloff expects revenues of $165 million this year and per-share earnings of 65¢. Next year, he sees earnings of $1.16 and $1.45 in 1995. His projections are based mainly on the fast growth of the private-label market for razors a blades. In the U.S., the company s to such retail giants as Wal-M Stores and Kmart under the outl own brand labels. American Safety zor also makes hand tools, includ carpet cutters, which it sells to Ho Depot, among other retailers. Ot products include industrial and med blades and custom bar soaps.

One New York hedge fund mana who holds a big stake in Ameri Safety Razor says the stock is on the cheapest in the fast-growing b ness. He sees it hitting the high t sometime this year.

GAUGES WITHOUT THE GUESSWORK

Ever on the lookout for small a beaten-down companies in midst of a turnaround, Jack ver, president of Siar Capital Mana ment, has acquired a 7% stake Measurement Specialties, a make measuring devices that nearly w bankrupt three years ago. Since th it has paid off debt, replaced the bo and broadened its products. But wh so hot about a maker of tire gau weighing machines, and food scale

Plenty, argues Silver, if the comp is now a pure play in digital electr measurement gadgets for industr automotive, and medical uses.

So far, Silver seems to be right the money. Shares of Measurem Specialties, which traded at 2½ in March, rose to 5½ by Sept. 1. He s more upside room in the stock as e ings come through.

The company has "a number of tential home-run products," says S don Traube, an analyst at M. H. Me son, a New Jersey securities fi Traube points to an FDA-approved posable sensor designed to meas heart and blood pressure. This pat ed tiny device is mounted on the ti a special catheter used in open-h surgery to measure heartbeat blood pressure. The analyst says sensor could bring in annual sales o million to $7 million. Another prod is a handheld digital electronic t pressure gauge that, says the anal is more accurate than standard gau It retails for under $10.

Traube expects Measurement's e ings to jump to 31¢ a share next y on revenues of $15 million, up f 1993's estimated 4¢ on sales of million. In 1995, he sees earning 55¢ on sales of $23 million.

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TOSHIBA

Commentary/by John Carey

THE SUPER COLLIDER IS SCIENCE. THE SPACE STATION IS PORK

In the next few weeks, lawmakers in Washington will take up Big Science, a topic as befuddling to most of them as quantum physics. Up for approval are the space station, at $25 billion, and the Superconducting Super Collider, at $11 billion. When the sound and fury ebb, odds are that Congress will have made two boneheaded choices, keeping alive the boondoggle space station while dealing a perhaps fatal blow to the scientifically worthy atom smasher. Worse, the decisions will be made for all the wrong reasons—a sad commentary on how science policy is set.

Consider first the space station, one of the most useless and costly enterprises ever conceived. Nearly every major scientific organization agrees that the project has practically nothing to do with science. Its only scientific rationale—a slim reed indeed—is to learn how humans react to long periods of weightlessness, a prerequisite for travel to Mars. (Perhaps when visitors get to the red planet, they'll find out what happened to NASA's latest disaster, the $980 million Mars Observer, which disappeared in late August.) There's also the problem of how to loft the station into position. One reason NASA wants the space station is to give the space shuttle something to do. But that aging craft is less reliable—and far more dangerous—than a 10-year-old Yugo.

NEW MISSION. So why does Congress keep pumping billions into the station? For years, it was mainly to show the Soviets, who had succeeded in keeping a few lonely cosmonauts in orbit for months at a time, that the U. S. was still master of the universe—or at least of near-earth orbit. With the collapse of the Evil Empire, the station's sole reason for being is to preserve 15,000 mostly high-paying jobs in areas hard-hit by defense cutbacks.

The tragedy is that many of those jobs could be saved if Congress showed some ingenuity. The U. S. needs a new, reliable rocket to substitute for the shuttle. It could use new weather satellites and planetary probes that work. It could also build a hypersonic aerospace plane capable of taking off like a jetliner and reaching low orbit. In short, killing the space station could free up money to engage aerospace companies in far more productive pursuits. The downside would be angering the Japanese, Europeans, and Canadians, who are busy building expensive labs and other hardware for the space station. But this may well happen anyway, since most versions of a cheaper, redesigned station cannot accommodate the foreign hardware.

BRAGGIN' SIZE: $2 BILLION HAS BEEN SPENT IN TEXAS

The Superconducting Super Collider is a different story. True, the huge Texas particle accelerator has flaws. It, too, was conceived in a "keep America first" mood when it should have been an international project, if only to spread its rising cost, now more than double the original estimate. And it can't live up to the ludicrous claims SSC officials and congressional supporters are making for its practical payoffs. It's unrealistic to hope the big machine's beams of protons will be used to cure cancer, or to expect that its magnets will jump-start a U. S. industry in magnetically levitated trains. "It's preposterous to justify the SSC on the basis of spin-offs," says University of Maryland physicist Robert L. Park.

Still, the SSC will do pioneering s ence. By smashing together beams protons that race through its 54-m long oval tunnel, the machine w prove or disprove the existence of a zarre particle, the Higgs boson, wh is predicted by physicists' theori Finding the Higgs boson and other oteric particles would help explain w objects have mass and how the u verse formed. "It's such fundamen knowledge that not building the would be a tragic loss," says No laureate physicist Jerome I. Friedm of Massachusetts Institute of Techn gy. A less-powerful mach planned for CERN, the Euro an high-energy physics cen in Geneva, may not be able answer all these questio What's more, taxpayers ha already spent more than $2 lion on the SSC and dug m than 15 miles of its tunnel— wasted if the project g down the tubes.

POLITICAL HYPOCRISY. Op nents of the SSC engineere 280-to-150 vote against it the House in June and h to win in the Senate as w "It's a black hole for gre backs," charges Tom Scha president of Citizens Agai Government Waste. "It is n project we can justify in t era of sacrifice." But cries wastefulness ring false in mouths of lawmakers who s sidize everything from moh to helium reserves for blimps and p money into pork-barrel projects such tapping the northern lights for ener Until many such projects are axed vote against the collider is mainly p ical hypocrisy. It lets members of C gress crow about their budget-cutt prowess as they grab tax dollars their districts.

America hasn't become so weak t it can't afford one big effort in ba science. If the SSC dies while the sp station lives, perhaps we should e our elected representatives toward physics phenomenon they understan bit better—the political black hole.

Carey covers science from the Wa ington bureau.

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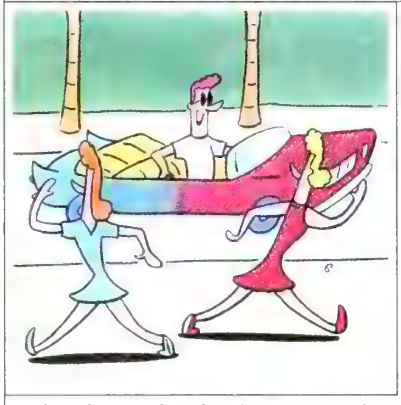


Feeling blue about driving a red car? No problem, says Donald Brewer, 23, president of Brewer Optical International Technologies Inc. in Terre Haute, Ind. Covering your car with flexible liquid-crystal displays may one day let you turn it from one color to another—or any mix of the two.

Brewer's technology imprisons two different color dye molecules in an LCD. Applying voltage changes the orientation of the molecules and thus the color. LCD panels covering a midsize car would run about $2,500, says Brewer. He has a patent on one color-changing LCD that could be used in jewelry and sportswear, including sneakers, and a patent pending on another type that could be produced in bigger sheets for cars or wallpaper. John Beiswenger, head of THREE Product Research in Strasburg, Pa., says he will urge his manufacturing clients to use Brewer's LCDs for color-changing touch screens on microwaves and dishwashers.

SPACE-AGE CONCRETE THAT MAY SUB FOR STEEL

A new concrete with 20 times the compressive and tensile strength of the best now available may lead to better construction and design. Developed by French construction company Bouygues, Reinforced Powder Concrete (RPC) gets its strength from fine steel wires, or microfibers, a fraction of a millimeter thick. They make the use of conventional reinforcement bars unnecessary. RPC's brittleness is only 1/100 that of conventional concrete.

Its greater strength means that only a third to a fourth as much concrete is required for a structure, thereby lowering the weight. Less weight and greater strength mean taller buildings and longer bridges can be built. RPC could also be a substitute for steel. Pierre Richard, vice-president and scientific director at Bouygues, says that RPC will allow more sophisticated shapes. "Geometric designs before thought to be impossible are now within reach," he says.

THESE MICROBES DO THEIR JOB, THEN FALL ON THEIR SWORDS

Bioengineered products face a big hurdle: public fear that the "super microbes" will wreak havoc on the environment. GX Biosystems Inc. in Holt, Denmark, may have a solution: a "suicide gene" that programs genetically altered bacteria to self-destruct when their work is done. The lethal genes turn on when bacteria finish feeding on toxic waste or potato beetles—or at a preset time. One insignificant microbe in 100 million survives.

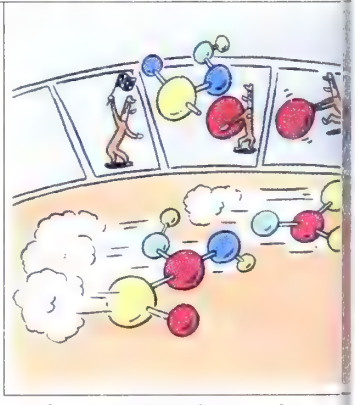
GX and the U. S. Environmental Protection Agency are discussing setting up a field trial of live bacteria engineered to break down chemical solvents used in manufacturing. With a European patent in hand and U. S. patents pending, GX has ranged a co-development agreement with an unnamed pe cide company and is negotiating with others. Meanwhile, Dutch environmental agency and GX are cooperating on f trials of live bacteria engineered to fight the potato b called the leather jacket. GX President James Sharpe says suicide gene should make it easier to win EPA approval live, genetically altered bacteria.

SOON, BART SIMPSON CAN HANG NEXT TO THE FAMILY PORTRAITS

The march toward hang-on-the-wall TV has taken a big s with the commercialization of Matsushita Electric Indus al Co.'s proprietary Flat Vision technology. On Oct. 1, the c pany will start selling a 14-inch color set with a screen un 4 inches thick. Initial price: $2,750. Unlike liquid-crystal plays, which are used to make tiny color TVs, Flat Vis somewhat resembles conventional cathode-ray tubes. But stead of a long "gun" that shoots signals onto the scre Flat Vision uses 44 wire cathodes to deflect beams throug multilayered matrix of electrodes. When the signals re the screen, they create almost 10,000 separate cathode-ray ages that add up to a seamless picture.

Like conventional TV, the image is vivid, nearly distort free, and easily visible from an angle. According to Matsus ta, the cost is about one-tenth that of a similar-size screen. Matsushita introduced this Flat Vision model to ga consumer interest. Miniaturization should make a wall-hang model possible by 1995, but it will still have to be wired separate base containing circuitry and a power supply, s Matsushita. The company also expects to introduce a 20-i version before long and a computer-display version next y Matsushita hopes Flat Vision will capture 10% of the gl display market by the year 2000.

AND AROUND THE FAR TURN, IT'S *E. COLI* DNA BY A NOSE...



Scientists at Los Alamos National Laboratory are spending their days at the track—the molecule track, that is. The researchers have found that racing molecules down an electrified "drag strip" provides a measure of their size based on their finish time. Short molecules finish faster because they encounter less resistance. These races may speed up the mapping and sequencing of DNA—the go the federal government's Human Genome Project—by deli ing a molecular profile in under a second.

An electric field propels the molecules along a track 200 crons long—less than the thickness of a razor blade. A l lights up the starting line. Struck by the beam, the mole emits a pulse of light that sets off the stopwatch. At the ish, a second laser strikes the molecule, which emits ano pulse of light to stop the clock. Staff scientist Brooks Shera ceived a patent on the technology this spring and is work with postdoctoral fellow Alonso Castro to identify the DN viruses in blood and *E. coli* bacteria in food.

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WHY GATEWAY IS RACING TO ANSWER ON THE FIRST RING

The leader in mail-order PC sales faces impatient customers—and the competition is increasing

WAITT: EMPHASIZING NEW MODELS WHILE WOOING EUROPEAN AND CORPORATE MARKETS

Gateway 2000 Inc. is finding out just how personal the personal-computer wars can be. Dell Computer Corp.'s latest magazine advertisements blare in boldface: "Performance that blows the gates off Gateway." Another Dell ad screams: "The gateway to the hottest PC technology isn't Gateway." Dell's attack ads used to be aimed only at archrival Compaq Computer Corp. But Dell has widened its dart board since Gateway took the lead in the $6.5 billion U. S. mail-order PC business.

So how is Gateway 2000 handling the attention? "I like other people advertising our name," chortles Ted Waitt, the 30-year-old ponytailed CEO of the North Sioux City (S. D.) direct marketer he founded in 1985.

CROSSROADS. But being an obvious target for the competition has its drawbacks. In addition to Dell, the onetime market leader, other big computer makers including IBM and Compaq are getting into direct marketing. Waitt tells BUSINESS WEEK that for the first time since its founding, the privately held company's sales fell from one quarter to the next. Second-quarter revenues, though up 47% over last year, are down 13% from the first quarter, to $365 million. The company will soon issue a revenue statement. Waitt says the major cause of the decline was a backlog of unfilled orders from last December that inflated first-quarter results. But he also concedes that sales slowed in April and May, though they have rebounded since then. "The order rate right now is as strong as it has ever been," he says.

That may be true, but it also may not be enough. Gateway is at a crossroads that has tripped up many a PC company in the past. It must keep revenues growing like mad while maintaining quality and service—and not losing control of costs.

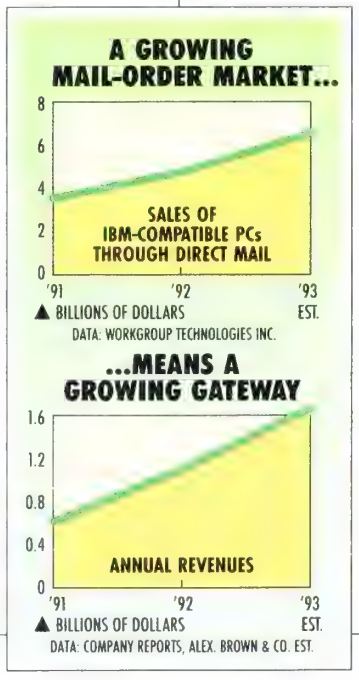
The first part of the equation is simple: Find new customers beyond the technically astute individuals and small businesses that have bought from Gateway for years. Waitt is gearing up for an overseas expansion i is launching a new effort to snag corporate buyers.

Maintaining profits as he invest overseas subsidiaries and new marke programs in the U. S. won't be as e Competition in mail-order sales has come far more intense in the past y Dell and Ambra, a new IBM direct-s unit, are specifically targeting the t nologically savvy computer buyers tend to purchase Gateway. Says Martin, Dell's vice-president of wo wide marketing: "We have noth against Ted Waitt. But we want th customers."

Those customers may be ripe snagging. Gateway has found it toug find and train technical and assen workers quickly out in South Dak and that has led to complaints ab delayed deliveries and jammed cust er-service phone lines. "If their insta base gets unhappy, that's going to them—not these competitors," says G ory E. Herrick, chairman of mail-or competitor Zeos International Ltd.

NO-FRILLS STYLE. It's not like Gatewa in big trouble yet. Despite the sec quarter slowdown, sales will grow a spectable 54% this year, to $1.7 bil predicts Alex. Brow Sons Inc. But that's the 76% rate in 1 And while Gatewa expected to boost s ments by 50%, 656,000 PCs this y Dell's shipments jump 75%, Comp 90%, and Hew Packard's more t 100%, according International I Corp.

But Gateway thrive even if gro slows, Waitt ins thanks to comfort pretax profit marg The company, 1 owned by Waitt an brother, doesn't rel a full earnings st ment, but Alex. Br



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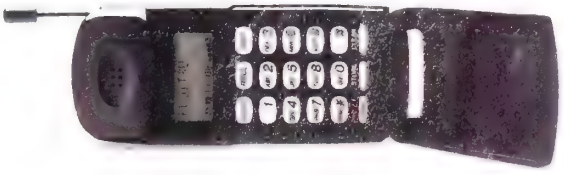

FUJITSU

COMPUTERS, COMMUNICATIONS, MICROELECTRONICS

analyst Steven Eskenazi says tha the start of 1993, the company was e ing 9.4% pretax vs. 7% for Dell. S margins dropped in the second quar But "it's nothing we're overly concer about," says Waitt. "If things wer drop off, we'd have to go so far d before we're not profitable, you woul believe it."

Gateway can thank South Dakota its lean cost structure. Taxes are and labor is cheap. Headquarters corrugated metal building not far f the barn on his parents' farm wh Waitt started the business. A no-f corporate style has allowed Gatewa continue undercutting the competit despite PC price wars.

Waitt hopes the same formula work in Europe. Within the next y Gateway plans to start selling mail-o PCs in Britain, France, and Germ made at a factory in Ireland. It will stiff competition, however, from trenched U. S. vendors and natives as Germany's Vobis. And because computers and marketing progr must be customized for each coun Gateway may find it difficult to k its costs as streamlined as they ar the U. S.

COLOR NOTEBOOK. Back home, the phasis is on new models to drive f demand. This month, the company roll out a color notebook and a subn book based on Intel Corp.'s 486 chip the U. S., Waitt also wants to boost s to large accounts from 40% of sales A new major accounts team, headed ex-IBMer David Batista, is hoping to other big wins, such as Ocean Sp Cranberries Inc. and Union Pacific C both of which also buy IBM comput "Gateway's so superior in terms of q ity and service," says Johnny Perk UP's senior telecom supervisor.

Not all Gateway customers share view. So the company plans to doubl technical support staff to more than by yearend, and it already has ha the time that callers spend on hol its service lines. But callers may wait up to six minutes to talk to a t nician. Waitt's ultimate goal: answe every call on the first ring. Gate also has doubled to 14 the technician its electronic bulletin-board service.

It will be no small trick to strike right balance between suppor growth with new markets and new m els without hiking costs inordinat "You have to have great products ou the right time," says Waitt. "It's diffi to go with one foot on the gas and other a little bit on the brake." It c be a bumpy ride.

By Lois Therrien in Chicago, with reau reports

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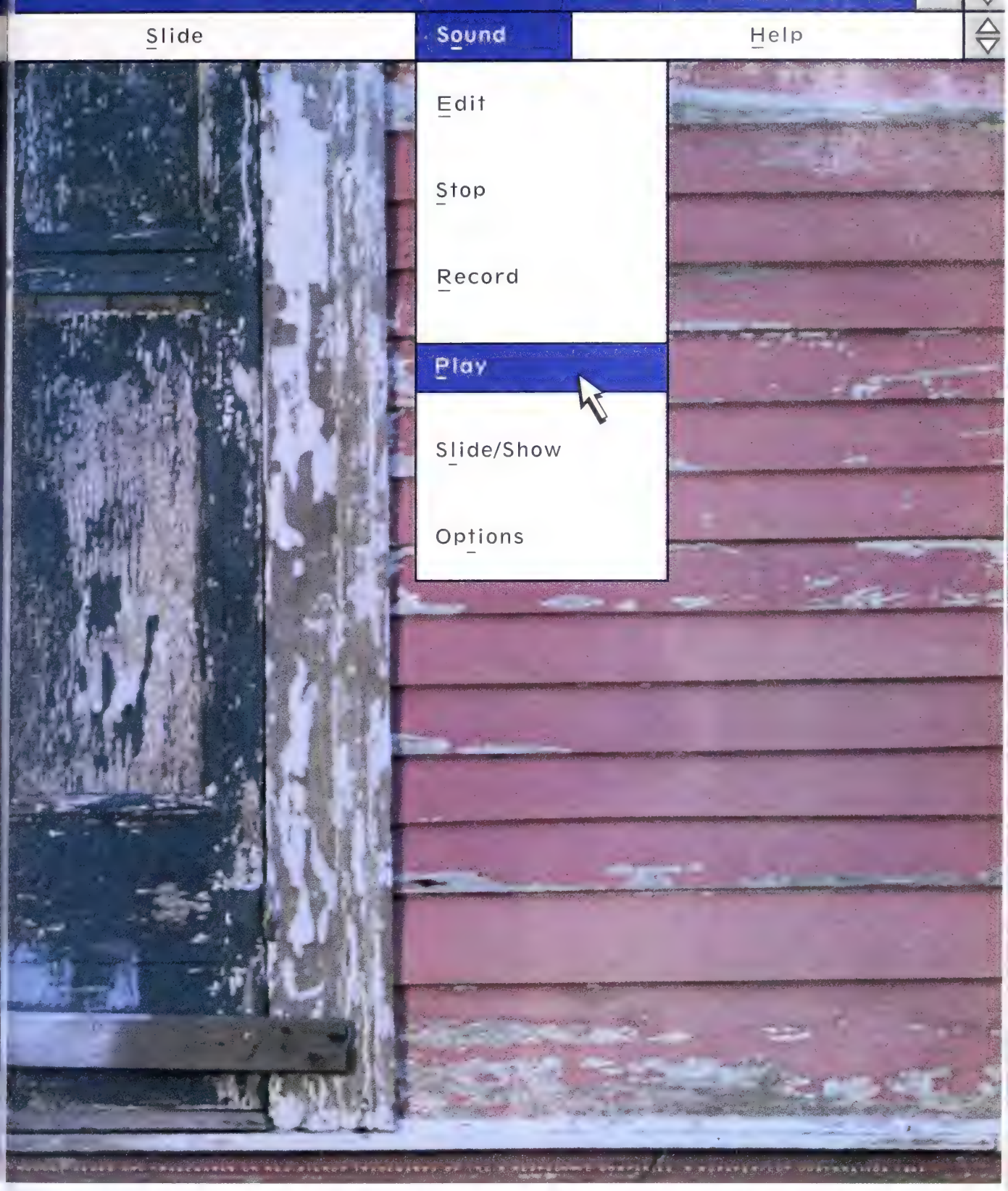

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WHERE TO PRUNE AND WHERE TO HACK AWAY

BUSINESS WEEK's agenda for bringing Washington into the 20th—never mind the 21st—century

"If I ran my business the way they run the government, I'd be in Chapter 11 by the weekend."

Every executive in the U. S. has probably spoken those words—or some very much like them. There's nothing quite like the frustration of dealing with the latest set of incomprehensible regulations.

But complaining is easy. How do you make a sprawling institution with a $1.5 trillion budget and nearly 3 million civilian employees work smarter? If companies have struggled to reinvent themselves over the past decade, no wonder the task is much rougher for the federal bureaucracy. Yet something must be done. And on Sept. 7, the Clinton Administration will unveil its plans for reinventing government—the result of a six-month review headed by Vice-President Al Gore.

Gore will put some important issues on the table. He'll highlight the need for better coordination among agencies as well as improved procurement and management practices. He will even suggest killing a handful of obsolete programs. But Gore's effort will be only a modest first step in a process that he says may take nearly a decade (page 102).

Done right, reinventing government will pay off in better delivery of services at less cost. But saving money isn't the Holy Grail. The real goal is restoring public confidence. "It's not just that people feel overtaxed," says David Osborne, a consultant to Gore and co-author of *Reinventing Government*, a best-seller in Washington, D. C., last year. "They feel the federal government just doesn't work. Our goal is to create a government that's more effective and efficient."

How to do that? After interviewing management experts inside and outside government, as well as career bureaucrats and political appointees, BUSINESS WEEK has a few suggestions.

TRY NEW 'NEW FEDERALISM' Before tinkering with management, Gore and Clinton ought to think long and hard about what the central government should do and what it shouldn't.

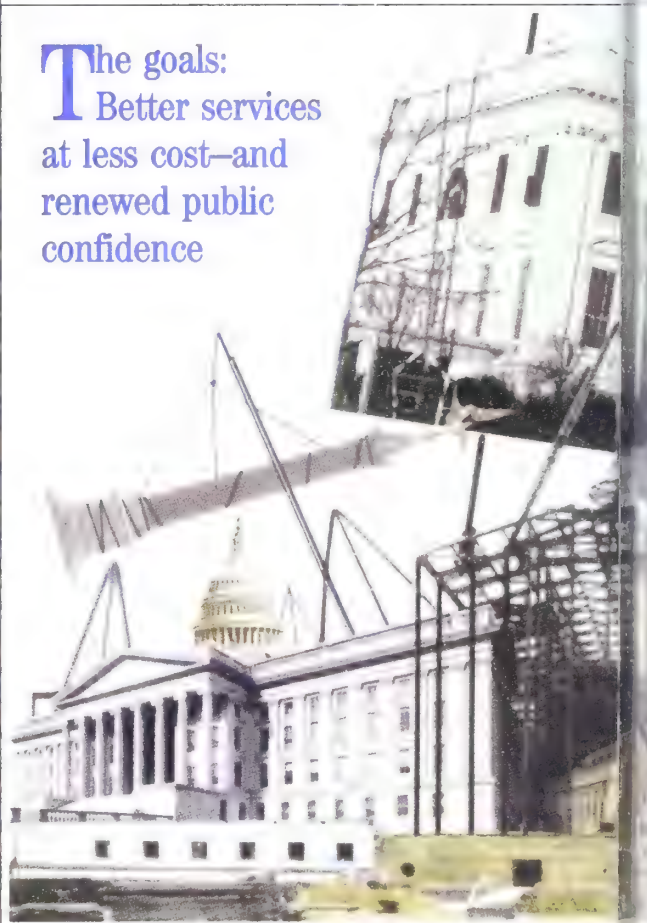
After all, the idea is not to find the best way to make buggy whips. Gore's proposal should do more than merge a handful of small programs. Whole agencies, such as the Energy Dept., should be shuttered. The Environmental Protection Agency could take over Energy's primary function: cleaning up the mess left by the nuclear-weapons program. The Federal Maritime Commission and the Interstate Commerce Commission can go, too. The Government Printing Office's monopoly should be broken and its work opened to private competition to assure that Uncle Sam gets the best price. Air-traffic control would also be better in private hands.

Still other jobs are better done by cities and states. Shifting responsibility and funding to them would cut a layer of bureaucracy and bring the programs closer to those most affected. In 1992, economist Alice M. Rivlin (now deputy director of the Office of Management & Budget) suggested that the [illegible] hand off a broad range of tasks, such as social services, tr[illegible] portation, and education. Schooling has not improved since [illegible] Education Dept. was created in 1979; it wouldn't be mis[illegible]

END TURF BATTLES The President needs to halt the ne[illegible] ending squabbles among federal ag[illegible] cies. When several departments have similar m[illegible] sions, the work should be consolidated into on[illegible]

Consider job training. Today, 125 federal off[illegible] fund programs for everyone from veterans to poor kid[illegible] should take only one office—and one set of rules. Byzan[illegible] oversight of U. S. banks and brokerages has left them [illegible] time warp, regulated as if it were the 1930s. It may [illegible] made sense then to divide the regulation of banks, thrifts, [illegible] brokerages, but not now. Similarly, the dozens of statis[illegible] agencies throughout government have lost track of wh[illegible] happening in the U. S. economy. One agency would be be[illegible]

The goals: Better services at less cost—and renewed public confidence



reinventors should also attack redundancy within agen- The Agriculture Dept., for instance, operates more than field offices—some in such unlikely places as New York That makes Congress and real estate developers happy, costs taxpayers a bundle.

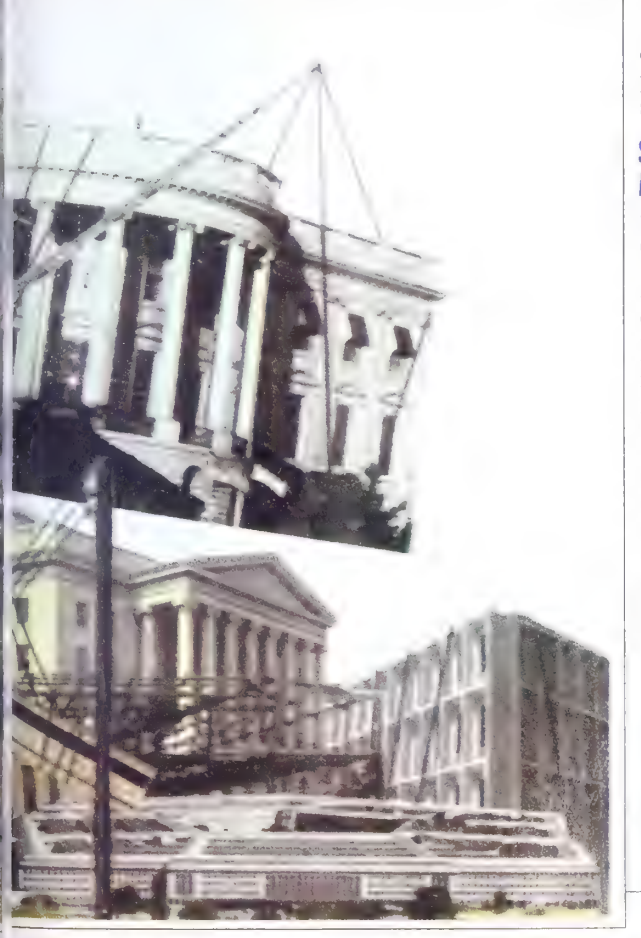
RM NG PRACTICES The government should purchase goods based on price quality, not on political or social considera- . And it needs to assure that managers get equipment they need when they need it.

government does nearly everything wrong when it supplies. It pays too much, partly because of a raft of detailed specifications. By now, everyone knows about entagon's $600 hammers. Gore has his own favorite a simple glass ashtray—or, as the 12-page procurement ients call it, an "ash receiver, tobacco (desk type)."

business, buyers purchase the highest-quality goods at est price. Government purchasers, though, must consuch social goals as supporting minority-owned or small esses. The cost of administering those rules is simply too ; government should merely give those companies a e to compete.

make matters worse, Washington has created a caste of procurement staffers, assumed they are corrupt, and id a maze of rules to keep them honest. This probably more than the theft—which the rules don't stop anyway. ntralized decision-making blocks line managers from doeir own buying and encourages a "use it or lose it" ality. An office may desperately need computers but 20,000 for unwanted chairs. Managers may as well buy airs, since there's no way to use the funds for PCs.

e seems to be zeroing in on the solution: Give managers ility to make their own purchasing decisions. A big rea- e government has fallen behind in the use of information technology is that line managers who know what's needed are out of the decision-making loop. "We have lousy computers," says Elaine Kamarck, a top adviser to Gore, "and it's clearly related to a procurement system that hasn't kept up with the times. We ought to have managers do their own buying."



OVERHAUL MANAGEMENT Sharply reduce the number of managers and tie pay to performance. As bad as the procurement system is, it doesn't hold a candle to the government's staff troubles.

Day-to-day life in the bureaucracy can be dismal: a mind-numbing hiring process, overcrowded conditions without basic equipment, and often inadequate pay. The biggest problem: the pay-and-promotion system. "The game is rigged to discourage people from taking chances," complains Donald F. Kettl, a political science professor at the University of Wisconsin.

Because staffers don't trust supervisors, they cling to a rigid, half-century-old pay system that classifies most federal employees into 150 "grades" and "steps." Compare that with General Electric Co., which has slashed its 29 steps down to 6. Government raises and promotions come mindlessly, on a fixed schedule. It is virtually impossible to fire the worst employees or reward the best.

The National Academy of Public Administration, in a 1991 report, recommends replacing the current scheme with a simple, flexible alternative based on three career levels: entry, journeyman, and expert. Within those categories, managers could be given authority to reward performance. "We are talking about a fundamental rethinking of the civil-service system," says NAPA President R. Scott Fosler.

The existing system also spawns management inflation. Staffers can be rewarded only by being promoted to supervisory jobs. As a result, the bureaucracy is choking on managers—on average, one for every five or six staffers. In the private sector, the ratio is something like 1 to 15.

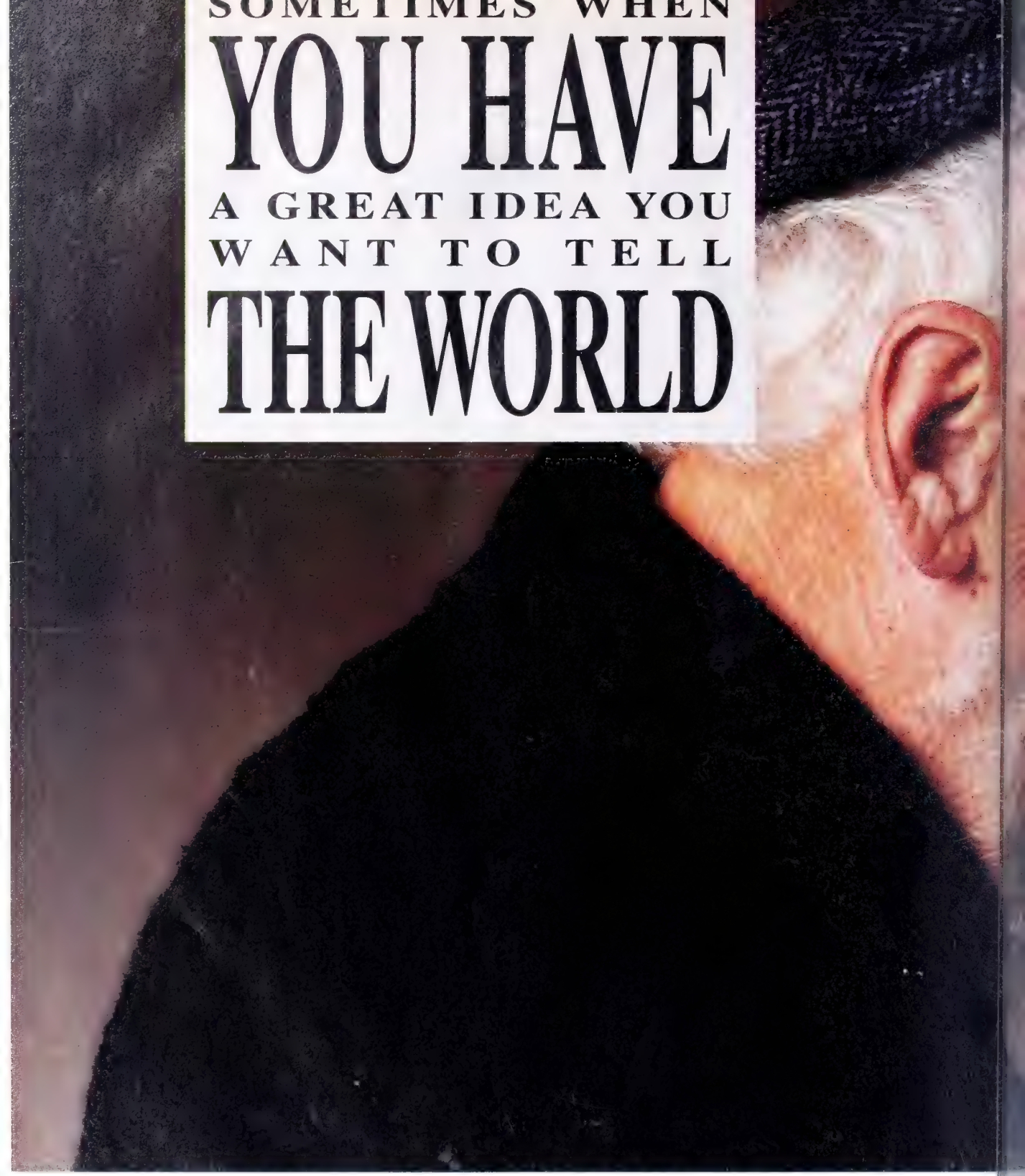
In 1989, ex-Federal Reserve Board Chairman Paul A. Volcker recommended cutting by one third the 3,000 political appointees sprinkled throughout the executive branch. The same should be done for the government's 400,000 career managers.

STOP MICRO-MANAGEMENT Managers must have more flexibility. That means a radical change in the culture of distrust that permeates Washington. Today, a bureaucrat's every move is subject to second-guessing by cadres of overseers: multiple congressional subcommittees, the General Accounting Office, the OMB, and inspectors general. There's nothing wrong with keeping an eye on the taxpayers' money. But the focus should be on results, not process. Making bureaucrats jump through hoops may satisfy congressional egos, but it's bad government.

One remedy: Get the OMB out of the regulation-writing business. And have Congress pare back the dozens of subcommittees that both create the bureaucratic maze and then muck around in its daily operations. It's no wonder that the tiny Federal Emergency Management Agency is a favorite whipping boy in Washington—it reports to no fewer than 23 subcommittees. Says Stanford University political scientist Terry Moe: "Congress doesn't trust anybody. They don't want agencies to have discretion. So you get a ton of rules and a bunch of bureaucrats to oversee them."

In the end, of course, government can't be run exactly like a business. The bottom line won't ever be the driving force. Yet Uncle Sam can learn a lot from Corporate America. The payoff would be the same—higher-quality services at lower cost. There may even be an additional dividend: restoration of the taxpayers' faith in government.

By Howard Gleckman in Washington



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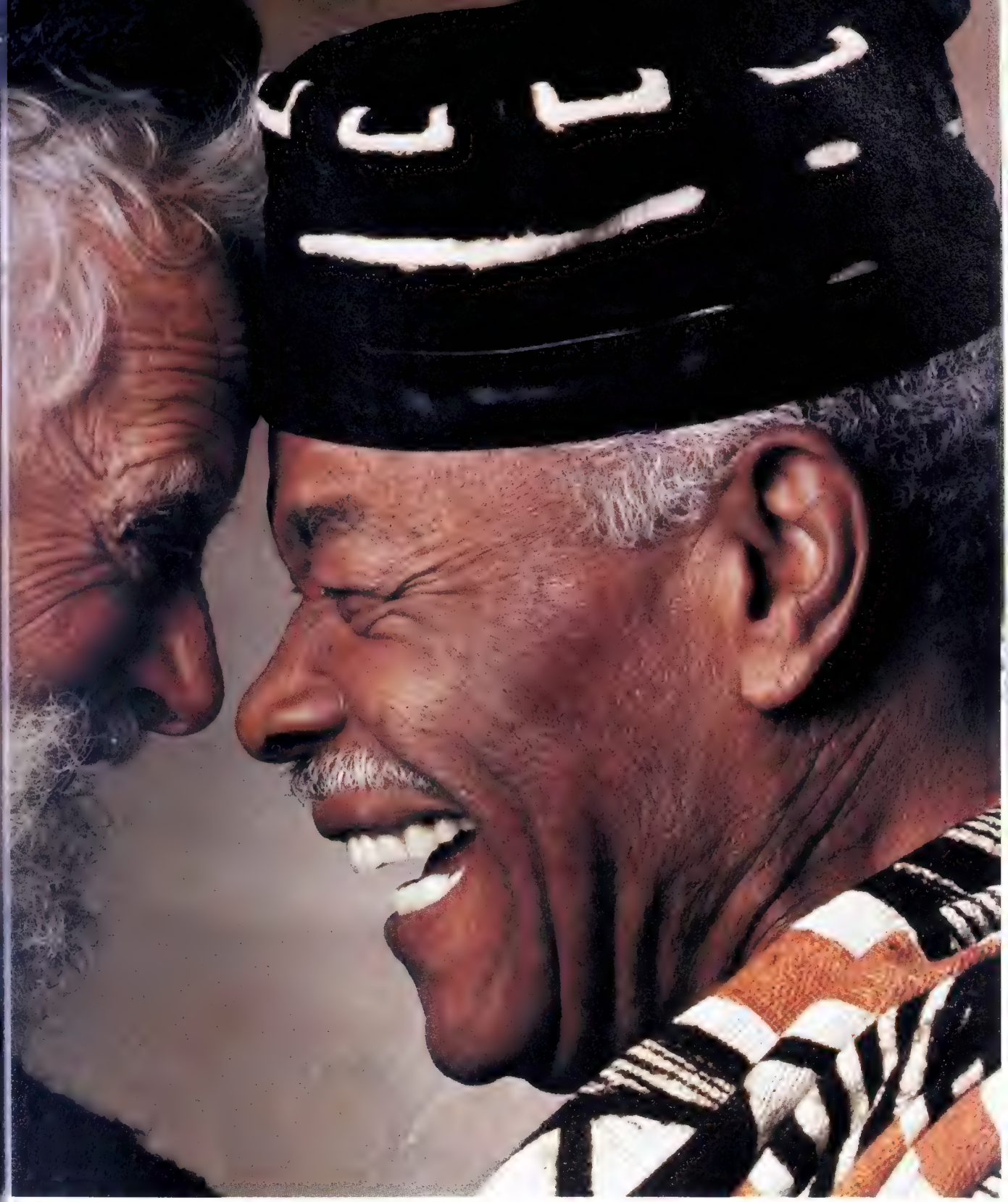

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MANAGEMENT

AL GORE: WHAT BUSINESS CAN TEACH THE FEDS

He vows "to bring competition to bear in government"

Vice-President Al Gore is heading the Clinton Administration's National Performance Review—an effort aimed at making government work better. Gore and a 200-member staff spent six months surveying the massive bureaucracy. He recently discussed his ideas with BUSINESS WEEK *Economics Correspondent Howard Gleckman and White House Correspondent Susan B. Garland.*

Q *Why should business care about reinventing government?*

A When government doesn't work, the whole country suffers. When government makes mistakes constantly and wastes money persistently, business—and every institution in society—is hurt. In the increasingly competitive global marketplace, a government that works is an essential ally for business.

Our national government has to make the same kind of transition that many U. S. businesses made as they realized that their old form of organization was no longer adequate.

Q *Can you really adapt business-management techniques to government?*

A There are some things that are unique about government. On the other hand, there are many lessons learned from private business that are quite appropriate and adaptable to government. Insights that involve the way men and women work in teams are relevant in government just as in business.

One reason that government doesn't work is that it is still applying principles learned from business in an earlier era. The Taylorism [which divided work into small, easily supervised tasks] that was successful in companies 60 years ago is no longer successful in business, but it's still being used in government.

Just 10 to 15 years ago, American automobile companies were lost. If they can make the transition, the government can, too. One reason they made the transition was competition. And we want to bring competition to bear in government. Internal and external competition drives the system toward change.

Q *Give us a for instance.*

A The air-combat command creates competition in all of its jet-fighter squadrons. They set up benchmarks of performance, and all of the squadrons compete against that standard. Each unit competes fiercely, knowing that it is going to get feedback and understand where it stands against the benchmark.

Q *What are you going to do about the turf consciousness of the departments?*

A The traditional way of addressing that problem has been to move the boxes around on the organizational chart. While we're doing that a little bit, we've tried to avoid it because the transaction costs—political as well as financial—are often so high that they exceed the benefits.

Can I use my jargon? We talk among ourselves about how to create vir departments that are organized ac boundary lines. We're going to be ting some deadlines for the solutio interagency conflicts. We are cros the boundaries technologically with vices as simple as electronic-mail works connecting one part of an ag to one part of another agency. T are lots of solutions.

Q *Do you plan to eliminate agencie shift authority to the states?*

A We're going to recommend the e nation of several entities and a sig cant number of programs. In some es, we are recommending shifting grams to the states as well.

Q *Why do you expect that your e will succeed when others have failed*

A We've reviewed all 500 of the p ous ones. We ha found any that have en our approach. W relying primarily or eral employees as source of ideas.

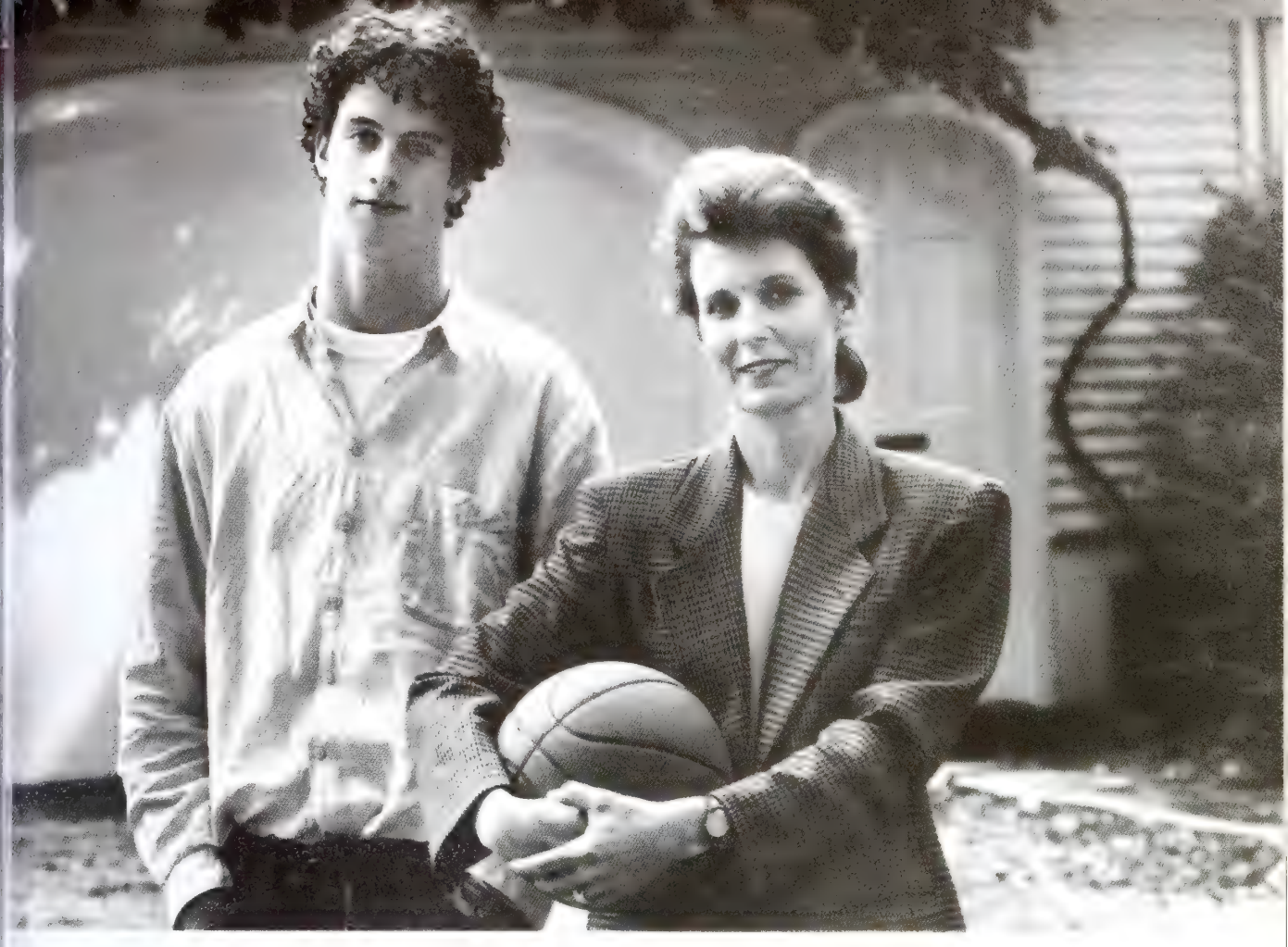
When a busines son is asked to re nize the federal go ment, the impuls man the barricades great that nothing gets done. [This t every member of Cabinet is ready as the President Recommendations in the control of the ecutive branch wi carried out.

Q *How do you c the culture of some as big as government?*

A That is the biggest job we ha tackle, and it's not going to change night. Most private companies tha to reinvent themselves report th takes six to eight years, on averag the changes we want to see in the al government could take 8 to 10 ye

Q *How much of this effort is desig cut the deficit?*

A We will have significant savin you reinvent in the right way, yo going to save significant sums. If c spending is all you're interest you're going to make mistakes, an won't get a transformed system o ernment. If you take a meat ax, a will do is create tremendous angu



A promise not to tell who really picked out the prom corsage.

romise to keep the dreaded Aunt Edna from checking in when I'm away on business.

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EDITED BY AMY DUNKIN

Travel

FRILL-SEEKING IN THE CLOUDS

New York marketing consultant Janet Stark is a fanatic when it comes to amassing frequent-flier miles. Most of her purchases go on an airline-connected charge card that earns her flier credits. She takes inconvenient connecting flights to boost her mileage. She has even set her parents up with a Visa card that builds miles in her Continental Airlines account. "If there's a mile," says Stark, "I want it."

More than a decade after American Airlines launched the frequent-flier concept, mileage hounds such as Stark are finding new ways to nab free travel. True, the triple mileage free-for-alls of the 1980s are history. So the battle for today's mile-hungry traveler has become more subtle, fought with first-class upgrades, exotic destinations, richer partner bonuses, and short-term promotions. "Frequent-flier programs are the easiest way for airlines to compete, particularly for the guy who travels 10 to 12 times a year," says John Holland, publisher of *The Business Flyer*.

RAIN CHECK. That's apparent in the growth of programs for business travelers, who pay higher, last-minute fares. Most airlines now assign their best customers (usually those flying more than 25,000 to 30,000 miles per year on one carrier) to premium memberships, which include reservation hotlines, early boarding, extra bonus mileage, and liberal upgrade privileges.

Continental and Northwest Airlines, for example, automatically upgrade any full-fare-paying member to first class on certain domestic routes. And Northwest gives double mileage if no more first-class seats are available.

The rewards are fatter for high-fare foreign travel. This summer, USAir gave double mileage for all business-class travelers on both its own transatlantic flights and those of partner British Airways. Trans World Airlines is upgrading full-fare coach members of its Frequent Flight Bonus Program to business class on transatlantic flights through Sept. 30 and on Philippine Airlines' transpacific journeys, until Mar. 31.

But choose your carrier carefully if you plan international travel at a discounted fare. You're usually guaranteed your miles if you fly the U. S. carrier that runs the program. But there are some international carriers—including American's Asian partners—that won't give mileage on discounted coach tic

Luckily, the growing g reach of U. S. carriers is ing their flier programs dependent on foreign ners' whims. This sp British Airways' purcha 21% of USAir resulted dramatic increase in th mestic carrier's mileage ing reach outside the U. Sept. 15, BA will add 90 nations to USAir's award map, including such exo cales as Dar es Salaam Mauritius.

Northwest and its owner, KLM Royal I Airlines, have essen merged Northwest's Perks and KLM's F Dutchman programs low both mileage and award travel on carrier anywhere flies. Better yet, N west/KLM has libera quirements for Eur awards—60,000 miles two coach round trips t ropean cities on either ca

Closer to home, one hottest frequent-flier ch has been the explosi bonuses for regional sl services, which lately ha come battlegrounds for low fares and bonus

Take the heavily eled California dor. This sur United Airlines 1,000 miles for

on its every-half-hour s tle between San Franci and Los Angeles—plus a other 1,000 miles for ev same-day round trip. S deals can periodicall found in other shuttle

such as Boston-New Vashington and USAir's 1 Shuttle.

n the small fry have the mileage bug. Alas- ed MarkAir has a two- ld frequent-flier pro- And in June, tiny Air, a Salt Lake City- carrier that serves only s in the West, launched called Free-Quent. It 3 a free companion tick- r 5 round trips and a alone ticket after 10. ıe more way we reward for choosing us," says ıne Morris.

SYSTEM. For most pas- rs, smaller programs wo big negatives: a lack tners to help in earn- tra mileage and a limit- mber of destinations. vay around this is to e a small carrier that s miles to a major pro- Commuter airlines such nair, a Delta Air Lines ', have done this for But lately, some small endents have paid to arger programs. Reno a fast-growing West carrier, became a full antage participant in WA passengers can also to receive American -good news for cost-con- mile mongers, since ffers more leg room and underprices American ompeting routes. Al- h AAdvantage partner r, which flew between on and New York, was led this summer, its fre- -flier miles can still deemed on American. ir is dead, but its miles ı," says Randy Petersen, of *Inside Flyer*.

not just airlines that offering new mileage es. The Marriott Miles am gives 500 or 1,000 in the programs of ican, USAir, Northwest, British Airways, and ıental for each Marriott stay. After five stays, rows in an additional 5,000-mile bonus. But ott Miles members don't get credits in Marriott's own hotel-award program.

In late August, Holiday Inn's Priority Club began a similar link with Delta, Northwest, and United. Priority Club will now credit 2.5 airline miles for every dollar spent on corporate-rate rooms at any of 1,700 hotels in 56 countries. Guests paying any rates can have one mile for each dollar spent applied to their Priority Club account, which can later be transferred to an airline program or used for Holiday Inn awards. And beginning Sept. 1, the revamped Sheraton Club International lets guests accrue ClubMiles based on the amount they spend at the hotel. ClubMiles can be transferred to the flier programs of American, United, or Thai Airways International or to Sheraton's own lodging-award program.

While the new hotel mileage options will allow many travelers to boost their airline accounts without leaving the ground, they don't always work in your favor—especially if you log short stays at discounted rates. For example, under Sheraton's old airline-mileage scheme, guests paying business rates received a flat 500 United miles per visit. But with ClubMiles, you earn fewer airline miles if your hotel bill totals less than $250 ($167 for Gold level members).

Although mileage bonuses from rental-car partners are often overlooked by airline-club members, they offer some of the best deals. These are almost always short-term promotions. Currently, United is offering 2,500 bonus miles to Mileage Plus members who rent three times from National Car Rental in conjunction with a United flight from Aug. 15 to Dec. 15. American promises a triple mileage bonus July 1 to Dec. 31 for AAdvantage members who log at least two more Hertz or Avis rentals than they did during that period in 1992.

LONG VIEW. In fact, flier programs increasingly are looking for mileage-boosting opportunities that don't require travel. Every major U.S. airline offers a mileage-accruing credit card. Bonus mileage is routinely given for everything from magazine subscriptions to monogrammed shirts. In July, Northwest sharply expanded Dining for Miles, which credits two World Perks miles for every dollar spent at 126 restaurants in 16 cities. (Use your World Perks Visa and you'll get three miles per dollar.)

Why this endless search for new mileage lures? Nabbing flier-program members usually means cementing their business for years to come. Just ask Patty Jones, who is an account manager for the cable-television network Showtime and an elite Priority Gold member of USAir's flier plan. "USAir isn't such a great airline other than its frequent-flier program," says Jones. "But I have a lot of points invested in it, so I'm hooked." That's music to any airline's ears. *Jim Ellis*

A GUIDE TO FREQUENT-FLIER PROGRAMS

AMERICAN AADVANTAGE 800 882-8880

Has an extensive U.S. route map and a fat roster of partners to help boost mileage. Although a major carrier to Europe and Latin America, American is an also-ran in transpacific travel. Members can earn AAdvantage miles on TWA.

CONTINENTAL ONEPASS 713 952-1630

Continental's discounted mileage awards (35,000 miles for two domestic tickets) are good deals. On most routes, it upgrades members paying full-fare coach to first class. But booking award travel to popular places such as Puerto Vallarta can be tough.

DELTA FREQUENT FLYER 800 323-2323

Delta's 1,000-mile minimum flight credit accelerates mileage accumulation for short-haul fliers. And the big European route map it inherited from Pan Am brings plenty of foreign award possibilities. But Delta requires you to fly more trips to earn European award travel than many carriers.

NORTHWEST WORLDPERKS 800 435-9696

Northwest gives a minimum of 750 miles per flight, but requires only 20,000 miles for a free U.S. ticket. It also upgrades full-fare coach customers to first class on many domestic routes requiring a plane change. It accepts KLM mileage.

SOUTHWEST COMPANY CLUB 800 445-5764

Not for infrequent fliers: You must log 16 one-way flights in a 12-month period to win a freebie. And with only 36 cities served and no partner carriers, Southwest offers limited destinations.

TWA FREQUENT FLIGHT BONUS 800 325-4815

TWA is revamping its program on Oct. 1 to lower mileage levels for elite members, introduce a mileage-earning credit card, and add new car-rental and hotel partners. Its limited domestic system is a negative for fliers in many secondary U.S. cities.

UNITED MILEAGE PLUS 800 421-4655

The only U.S. carrier with a bargain 100,000-mile round-the-world award ticket. United's crown as the No.1 carrier to Hawaii assures plenty of seats there, and its extensive Asian service makes it a natural for mile-churning Pacific business travelers.

USAIR FREQUENT TRAVELER 800 872-4738

Thanks to its recent affiliation with British Airways, members can earn mileage on BA flights anywhere in the world. But USAir itself has limited service outside the Eastern and Western U.S.

DATA: BUSINESS WEEK

Finances

TAMING THE COSTS OF YOUR CREDIT CARDS

Rather than being a spectator in the credit-card price war, why not call your issuers and ask them what they've done for you lately? Despite the trend for card companies to cut interest rates and offer no-fee cards, many consumers are paying annual fees of $20 or more and rates on outstanding balances of nearly 20%. But some fed-up cardholders have learned a little secret: If they complain loudly or threaten to cancel their cards, they can exact better terms on the plastic they now carry.

Barbara Shinn, a retiree living in Indialantic, Fla., has had great success with this type of strategy. After a local bank waved a no-fee card at her, she called Chemical Bank to cancel her Visa Gold card. Surprise—Chemical volunteered to cancel the $40 fee. Emboldened, Shinn decided to tackle American Express. "I said, 'I'm looking at this $75 fee on my Gold Card and I don't want to pay it. I'd like to close my account,'" Shinn recalls. Amex slashed the rate to $35, but she had to forfeit her yearend statement.

WHAT COUNTS. Issuers have little choice if they want to retain accounts. The average rate hovers near 16.5%, but some cards charge as low as 6.9%, depending on how they calculate interest. "We do it," says John Ward III, senior vice-president and head of the credit-card division at Chase Manhattan, when asked about his bank's willingness to negotiate terms. Says Spencer Nilson, publisher of *The Nilson Report*, a newsletter that tracks interest rates: "All the major banks do it. But it depends on who's calling." Cardholders who pay their bills on time and charge frequently have the best chance of success.

Citibank, the nation's largest credit-card issuer, claims to have automatically rates on nearly 80% 27 billion cards since 1, 1992. But Marl Director Ruvan admits that deserving acc slipped throug net. Creditw customers wh for a kinder can get it o spot thanks t ware that Citibank reps an account in ly. The new-pur rate could drop fr high as 19.8% to 15.4% o ular cards.

Bargain hunters ma get everything they're "If your balance is $5,000, going for the l interest rate and payi annual fee is probably best bet," says Gerri D er, executive direct Bankcard Holders of A in Herndon, Va. Still, th lesson to be learned: W bank wants business enough, the customer have clout. *Louise N*

Smart Money

REFINANCING THAT WON'T TOUCH THE WALLET

If you're one of the four out of five homeowners who have not refinanced their mortgages as interest rates hit their lowest point in 25 years, consider this: You can reduce your rate on a 30-year fixed loan to 7½% or less without spending an extra dime up front by choosing the increasingly popular "no-cost" refinancing plan offered by most lenders. "It's a no-brainer," says Stephen Moore, district vice-president at Weyerhaeuser Mortgage.

Of course, no cost doesn't mean for free. The lender just builds fees into a higher rate. But if your mortgage is above 8% and you can get a 7½% rate with no closing costs or points (1 point equals 1% of the loan amount), you will still save on your monthly payments—though not as much as if you took a 6½% loan and paid fees. (table)

Anyone who is short on cash or just doesn't want to dip into savings should consider this option. The general rule is you should refinance if you can get 1% to 2% lower than your current rate and plan to stay in your house at least two years to amortize the closing costs. With a no-cost loan, you have to consider when the extra interest will start costing you more than whatever the payment would have been if you had sprung for the up-front expenses. Do your figuring on an aftertax basis, since you will be getting smaller interest deductions after the refinancing. "If you are absolutely sure you will be in the home for the next 10 years or the next 30 years, it is probably better to pay closing costs and go for lower interest rates," says Jerry Baker, managing director of Countrywide Funding.

EQUITY BOOSTER. There is another way to refinance with no out-of-pocket costs and still get the lowest rates available: Just add any points and closing costs to the loan amount. Lenders also offer "zero point" mortgages, wher borrower gets a lower than on the no-cost loa pays closing costs.

Some homeowners mortgages smaller $100,000 don't qualify f cost plans because the h rate won't generate en additional interest to closing costs. But this of mortgage can be a send for people who have enough equity in house to refinance, Robert Van Order, economist at Federal Loan Mortgage Corp. can use savings to inc equity to the 10% to 2 principal required by le without worrying about ing over fees.

But even people with reserves often prefer n refinancing. Says Paul mann, vice-president o Associates, a Butler publisher of mortgag formation: "It's a handy option any way you at it." *Amey*

OPTIONS FOR A $200,000 LOAN

Mortgage plan	30-year rate	Monthly payment	Paid after 30 years
NO COST	7⅜%	$1,381	$497,277
FULL COST*	6⅝	1,281	467,017
ZERO POINT**	6⅞	1,314	474,987

*$4,000 (2 points) plus $2,000 in closing costs
**$2,000 in closing costs
DATA: COUNTRYWIDE FUNDING CORP., BUSINESS WEEK

"When I wanted to expand into foreign markets, I needed a bank that spoke the language."

Todd Figi, President
Figi Graphics

"I wanted my own business so badly I started out selling candles from a van.

Over the next several years, my company increased distribution, diversified into wall art and expanded throughout the U.S. But we knew that our real growth would come from the international market. So we needed a bank that could not only take care of us here at home, but overseas as well.

That's why we switched to Bank of America.

They provided us with the letters of credit we needed to begin importing from around the world. And international banking services that let my company manufacture products in Indonesia and export to anywhere in Europe. But best of all, BofA's international presence lets me handle these transactions in all 42 countries where we do business with a phone call to my bankers Bob and Gordon right here in San Diego.

The way I see it, I may have opened my company, but it was Bank of America that opened my company to the world."

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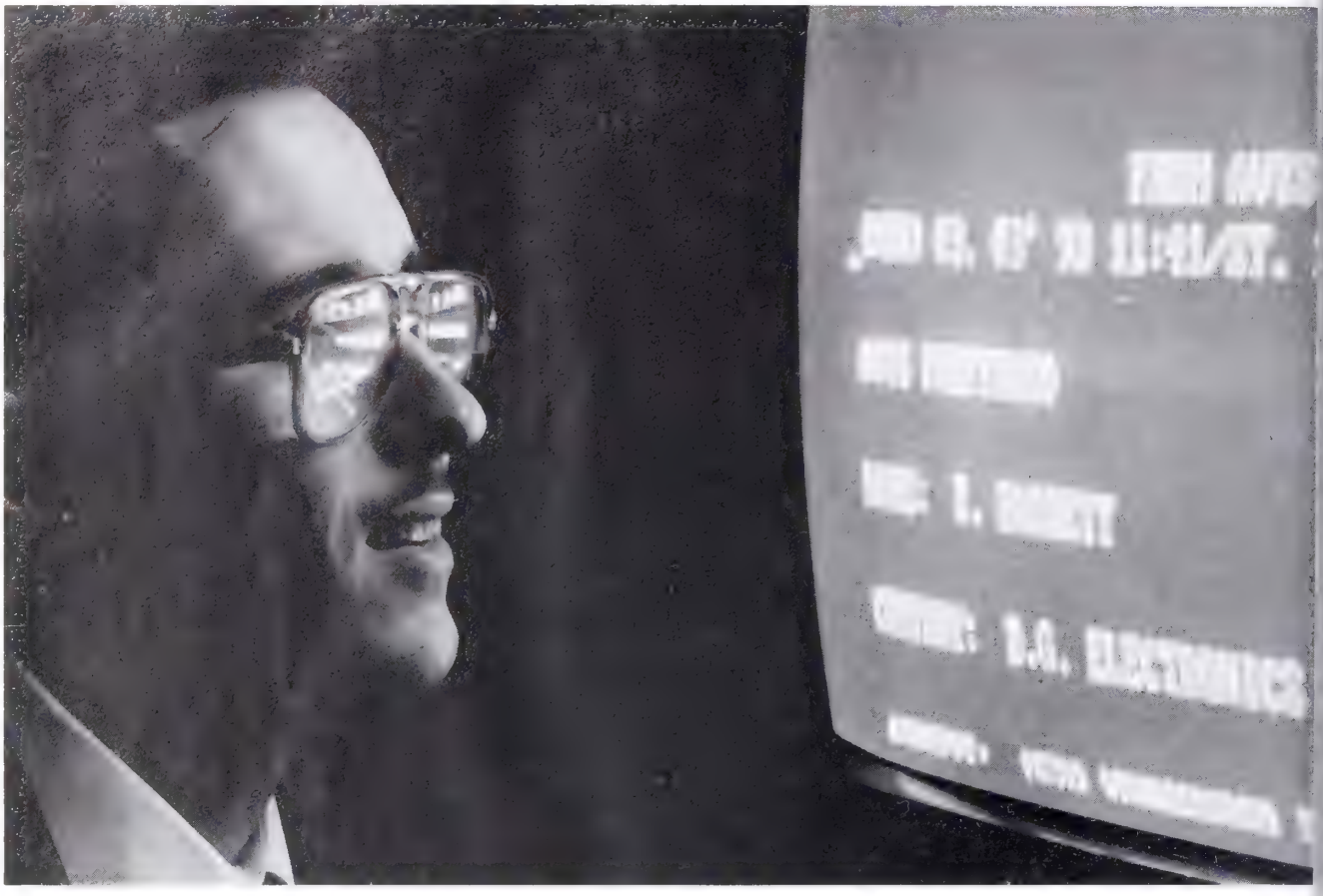
Helen Keller's Vision at Work



A young adult like Bradley Cupit, who is deaf-blind, brings more than just good work to the business that hires him. His presence promotes better understanding, cooperation, and good will among all employees. Corporations such as Avis have discovered this while working with the Helen Keller National Center for Deaf-Blind Youths and Adults. Find out how even a small company can help contribute to a world of better understanding. Call our placement specialists at 1-800-255-0411.

Now we can all Share Helen Keller's Vision

Helen Keller National Center
for Deaf-Blind Youths and Adults*

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lex to Companies

lex gives the starting page for a story or fea- h a significant reference to a company. Most aries are indexed under their own names. nies listed only in tables are not included.

sen 30
larkness & Hill 78
& Casualty 74
wn & Sons 92
Airlines 42, 104
Express 26, 36,
International 80
Safety Razor 86
erican 7
mputer 50
search 81
arch 50
0
Gas & Electric 81
Holders 106
Trust 80, 84
America 84
Montreal 84
n & Hamilton 36
90
ptical ional 90
rways 104
ities/ABC 31
anhattan Bank 84
Bank 84
ift Industries 30
26, 64, 72
2
ti Gas & 81
84
36
ancial 42
104
30
Computer 50, 92
tal Airlines 104
& Lybrand 20
wide Funding 106
64
itter 31, 81
7
nputer 92

Delphi Capital Management 81
Delta Airlines 104
Detroit Edison 81
Deutsche Bank 49, 84
Diners Club 36
DRI/McGraw-Hill 20, 64
Dun & Bradstreet 20

E

Eastman Kodak 26, 42, 110
Emerald Health Network 32
Exxon 42

F

Fahnestock Viner Holdings 86
Federal Home Loan Mortgage 106
Fibreboard 42
First Bank System 36
First Wilshire Securities Management 34
Fisher-Price 62
Ford 38, 42, 64, 72
Fox Broadcasting 30
Fuji Photo Film 42

G

Gateway 2000 92
GE 98, 110
General Mills 62
General Motors 42
Gillette 86
GM 64
GX Biosystems 90

H

Heinz (H.J.) 38
Herbalife International 34
Hewlett-Packard 50, 92
Home Depot 86
Home Shopping Network 30
Honda 64, 68, 72
Hong Kong International Terminals 49
HSH Associates 106
Husky Oil 49
Hutchison Telecommunications 49
Hutchison Whampoa 49

I

IBM 23, 50, 92, 110
Idex 11
Intel 92
Interlake 11
International Bank of Commerce 84
International Data 50, 92
Isuzu 64

J

Jardine Matheson 49
Jordan 86
Josephthal Lyon & Ross 86

K

Kenner Parker 62
Kidder Peabody 62
Kleinwort Benson 64
KLM 104
Kmart 86
Koor Industries 53

L

Liberty Media 30
Lloyd's of London 42
Long Island Lighting 81
Long Term Capital Management 80

M

Macmillan/McGraw-Hill School Publishing 42
Manpower 23
Markair 104
MasterCard International 36
Matsushita Electric Industrial 90
Mattel 62
Maxwell Communications 42
McGraw-Hill 24, 32, 42
Measurement Specialties 86
Merrill Lynch 74
MFS Utilities Fund 81
M.H. Meyerson 86
Midland Bank 84
MMS International 24
Morgan Guaranty Trust 84
Morgan (J.P.) 80
Morgan Stanley Asia 49
Morris Air 104

N

National Medical Enterprises 74
NatWest Securities 42
Nissan 64
Nordstrom 78
Northwest Airlines 104

O

Ocean Spray Cranberries 92
Oxford Health Plans 32

P

Paramount Communications 30
PGG Industries 29
Philippine Airlines 104
Prudential 32
Prudential Life & Accident 74
PSI Resources 81

Q

Quaker Oats 62
QVC Network 30

R

Reader's Digest 31
Reebok 78
Reno Air 104
Rockport 78
Rockwell International 64
Rodman & Renshaw Capital Group 86
Rothschild 86
Rover Group 64
Royal Bank of Canada 84
Rueters Holdings 82

S

Salomon 80
Sara Lee 26
SCI Television 30
Sears 59
Sega Enterprises 64
S.G. Warburg 36
Siar Capital Management 86
Silver King Communications 30
Smith Barney 86
Southwest Airlines 104
Star TV 49
Stride-Rite 62
Swiss Bank 84

T

Tele-Communications 30
Thai Airways 104
Thomson Bankwatch 84
THREE Product Research 90
Timberland 78
Time Warner 30
Tonka 62
Toyota 64
Travelers 74
Tribune 30
Turner Broadcasting System 30
TWA 104

U

Union Pacific 92
United Airlines 104
USAir 104
Utendahl Capital Partners 59

V

Visa USA 36
Vobis 92

W

Wal-Mart 86
Warner Brothers 30
Weight Watchers International 38
Wheeling-Pittsburgh Steel 29
William M. Mercer 32

Y

Yachio 64

Z

Zeos International 92

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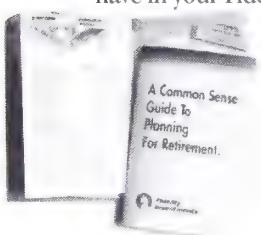

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Fidelity OTC Portfolio

1-Year Avg. Annual Return*	5-Year Avg. Annual Return*	Life of Fund Annual Return* 12/31/84-6/30/93
17.85%	16.26%	20.80%

Fidelity Contrafund

1-Year Avg. Annual Return*	5-Year Avg. Annual Return*	10-Year Avg. Annual Return*
28.20%	25.66%	16.77%

Fidelity Asset Manager

1-Year Avg. Annual Return*	Life of Fund Annual Return* 12/28/88-6/30/93
17.41%	14.92%

Fidelity Growth & Income Portfolio

1-Year Avg. Annual Return*	5-Year Avg. Annual Return*	Life of Fund Annual Return* 12/30/85-6/30/93
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sting a string of record
e Dow Jones industrials
eather this week, but the
e market wouldn't quit.
dard & Poor's 500 index,
id been lagging the Dow
jumped to new highs, as
-the-counter stocks. Bonds
d to surge, with the rate
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ate that was unthinkable
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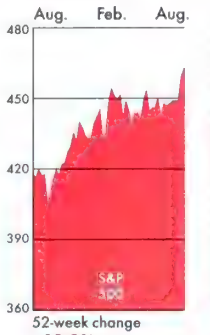
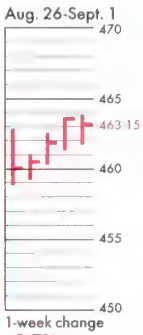
, the yield on the long
uld well drop below 6%.

STOCKS

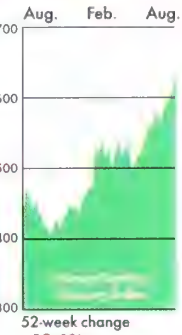




52-week change +10.8%

1-week change +0.7%

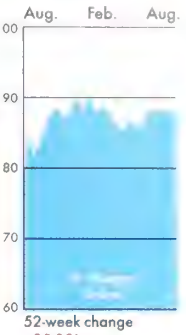
BONDS

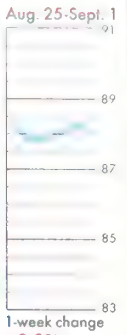


52-week change +12.6%

1-week change +0.8%

THE DOLLAR





52-week change +11.1%

1-week change −0.2%

RKET ANALYSIS

OCKS	Latest	% change Week	% change 52-week
NES INDUSTRIALS	3645.1	−0.2	10.8
COMPANIES (S&P MidCap Index)	174.3	0.4	20.7
OMPANIES (Russell 2000)	247.1	1.1	29.6
PANIES (Russell 3000)	267.5	0.7	14.0

N STOCKS	Latest	% change (local currency) Week	% change (local currency) 52-week
(FINANCIAL TIMES 100)	3085.1	0.2	33.4
NIKKEI INDEX)	20,953.3	2.1	19.1
) (TSE COMPOSITE)	4143.7	0.5	20.6

FUNDAMENTALS	Latest	Week ago	Year ago
90-DAY TREASURY BILL YIELD	3.08%	3.05%	3.21%
30-YEAR TREASURY BOND YIELD	6.09%	6.17%	7.38%
S&P 500 DIVIDEND YIELD	2.70%	2.72%	2.96%
S&P 500 PRICE/EARNINGS RATIO	24.0	23.7	24.6

TECHNICAL INDICATORS	Latest	Week ago	Reading
S&P 500 26-week moving average	448.2	447.5	Positive
Stocks above 26-week moving average	64.7%	62.6%	Neutral
Speculative sentiment: Put/call ratio	0.45	0.39	Positive
Insider sentiment: Vickers sell/buy ratio	2.58	2.24	Negative

USTRY GROUPS

BRIDGE INFORMATION SYSTEMS INC

WEEK LEADERS	% change 4-week	% change 52-week	Strongest stock in group	% change 4-week	% change 52-week	Price
IINE TOOLS	13.9	37.5	GIDDINGS & LEWIS	17.8	17.1	24
XPLORATION AND PRODUCTION	12.6	6.1	ORYX ENERGY	17.8	−0.5	24
CONDUCTORS	12.1	123.4	ADVANCED MICRO DEVICES	31.5	240.8	32 3/8
LS AND MOTELS	11.8	99.4	PROMUS	19.9	314.0	70 1/8
ERAGE FIRMS	11.1	74.9	MORGAN STANLEY GROUP	18.6	65 3	82 7/8
WEEK LAGGARDS	**% change 4-week**	**% change 52-week**	**Weakest stock in group**	**% change 4-week**	**% change 52-week**	**Price**
ITAL MANAGEMENT	−8.5	−1.7	NATIONAL MEDICAL ENTERPRISES	−27.2	−41.2	8 3/8
MINING	−8.5	51.4	ECHO BAY MINES	−15.9	86.3	11 7/8
S	−6.1	−18.8	REEBOK INTERNATIONAL	−9.9	−13.5	24
MOBILES	−5.5	44.8	FORD MOTOR	−6.4	28.3	51
MERCIAL SERVICES	−4.0	−6.2	NATIONAL EDUCATION	−17.5	−21.7	5 7/8

TUAL FUNDS

MORNINGSTAR INC

RS

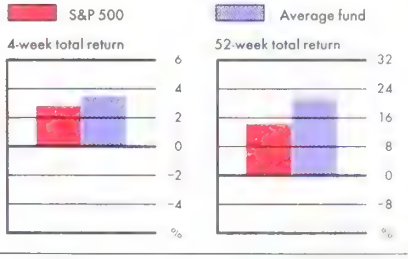
k total return	%
SMAN COMMUNICATIONS/INFO. A	11.9
DER LATIN AMERICA	11.6
GRESSIVE AGGRESSIVE GROWTH	11.6

total return	%
GROWTH	91.1
NGTON STRATEGIC INVESTMENTS	75.7
L MIDAS GOLD SHARES	75.5

LAGGARDS

Four-week total return	%
LEXINGTON STRATEGIC INVESTMENTS	−24.9
UNITED SERVICES GOLD SHARES	−19.8
BULL & BEAR GOLD INVESTORS	−15.1

52-week total return	%
FIDELITY SELECT MEDICAL DELIVERY	−13.1
INVESCO STRATEGIC HEALTH SCIENCES	−12.2
FIDELITY SELECT HEALTH CARE	−11.7



ATIVE PORTFOLIOS

DRI/McGRAW-HILL

amounts
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portfolio

tages indicate
y total returns

Foreign stocks	Treasury bonds	U.S. stocks	Gold	Money market fund
$13,159	$12,514	$11,460	$10,832	$10,227
+1.45%	+1.47%	+0.82%	−0.42%	+0.05%

on this page are as of market close Wednesday, Sept. 1, 1993, unless otherwise indicated. groups include S&P 500 companies only; performance and share prices are as of market close Aug. 31. Mutual fund returns are as of Aug. 27. Relative portfolios are valued as of Aug. 31. A more detailed explanation of this page is available on request.

DEFLATING UNCLE SAM'S BUREAUCRATIC BLOAT

It's clear most Americans don't trust their government much. They don't trust it to deliver services, solve social problems, or boost their fortunes efficiently. Just the opposite. Government appears to work against them as much as for them these days. Beneath the surface of the tax revolt and the movement for term limits is the public's sense of abandonment, abuse, and betrayal by government.

This is dangerous business. When people become divorced from the political system, demagogues thrive, extremism flourishes, and the vast moderate middle is splintered.

That's why Vice-President Al Gore's effort to reinvent government is so important. When his National Performance Review unveils its plan on Sept. 7, it will suggest ways to downsize the federal bureaucracy of 3 million workers—to save money and increase productivity. On one level, its success would fulfill a "New Democratic" pledge by the Clinton Administration to make government relevant again to the common folk. But more important, Gore's program could go a long way toward reuniting Americans with their governing institutions.

The task will not be easy. The entire government incentive system is gridlocked. Civil Service regulations rule out rewarding good effort or punishing poor work. Under the Civil Service job-grading system, most workers make a slow, lifetime march through 150 "grades" and "steps." By contrast, General Electric has only six.

Worse, government managers and employees work in hierarchical bureaucracies, where there is 1 supervisor to every 5 workers, compared with 1 to 15 in the private sector. Just the idea of top-down "supervising" shows how out of t government is, in a world where most corporations are bracing flattened, team-oriented, organizations.

In any serious attempt to reinvent the government Clinton Administration must engage both the unions an supervisors. The unions should be offered the chance to directly in the process. Congress too, must be an active ner in the reinventing process and not block change. An tempts to protect jurisdictional turf and federal jobs sh be checked.

A deal that can be brokered should start with dum most Civil Service regulations. That would end lifetime ployment and cut the number of workers over time. I change, the stifling rules that prevent employees from ing charge of their own workplace would go. Advance would be based on work done, not time put in.

Ending the rules would allow supervisors to start aging more creatively. But the massive middle layer still be pared dramatically. Attrition will do much of the To speed the downsizing, Gore should consider borrowin buyout schemes used by IBM and AT&T to reduce manag overload.

President Clinton can make a quick start by simply iss administrative orders to revise the Civil Service code. will require the political courage to challenge the federal u that supported him during the election. The New Demo have talked about making government work again. To do they must first show that the government is responsive t people.

TAKE OFF THE GLOVES AND FIGHT FOR NAFTA

It's time for Big Business to stand up for NAFTA. During the months of discussion over the North American Free Trade Agreement, Corporate America, which strongly favors the agreement, has bobbed and weaved like Muhammed Ali in expressing its support. With Democrats caving in to the unions on their left and with Republicans waffling on their right—thanks to Ross Perot and Pat Buchanan—the defining moment is at hand. Corporations should proclaim publicly what they have been saying privately: Open markets are good for their employees, shareholders, suppliers, and country.

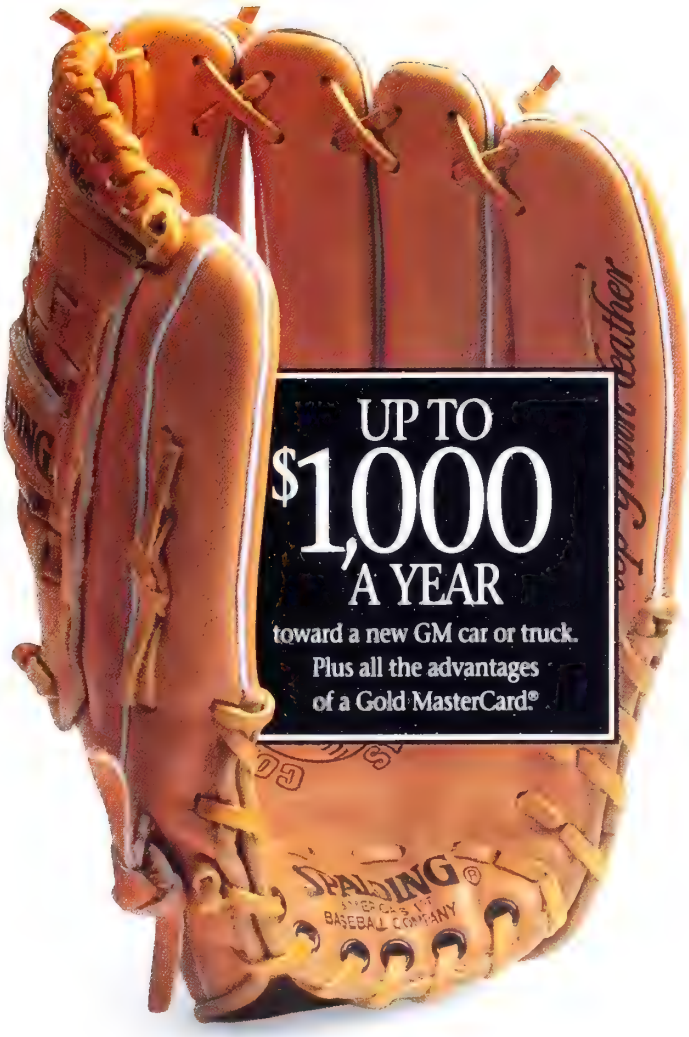
It's not as if Corporate America hadn't tried to make the case for NAFTA. The problem is that its voice has been drowned out. Big Business is not used to lobbying actively for this kind of general macroeconomic policy. Corporate lobbyists spend their time in Washington fighting for or against taxes or regulations on specific companies. The interests and issues tend to be narrow, focused, and parochial.

Fighting for NAFTA requires a more abstract mind-set and a broader set of skills. Lobbying for it demands defense of a concept: competing freely across borders. It involves promotion of a process: lowering barriers to goods, services, and capital. These are not the bread-and-butter issues of Armani-clad corporate lobbyists.

Big Business is also handicapped by a lack of leader American Express CEO James D. Robinson III and East Kodak CEO Kay R. Whitmore have been in charge of the ness Roundtable's efforts in support of NAFTA. But they both been recently nudged aside by their boards of tors. There is no single, high-profile leader in charge battle for free trade at the moment.

That's too bad, because the case for NAFTA is overw ing. While poorly paid jobs in the U. S. will be lost th imports from Mexico, other high-skill, high-wage jobs w created through greater exports. History has shown that trade is a boon to the country.

But NAFTA forces the point that America needs tra programs for workers displaced by global competition. tract the venom from NAFTA's opponents, a publicized for more worker training is required. Big Business h convey to its varied stakeholders and to its represent in Congress that free trade is a common good for the n Now will Lee Iacocca or his like please step forward?



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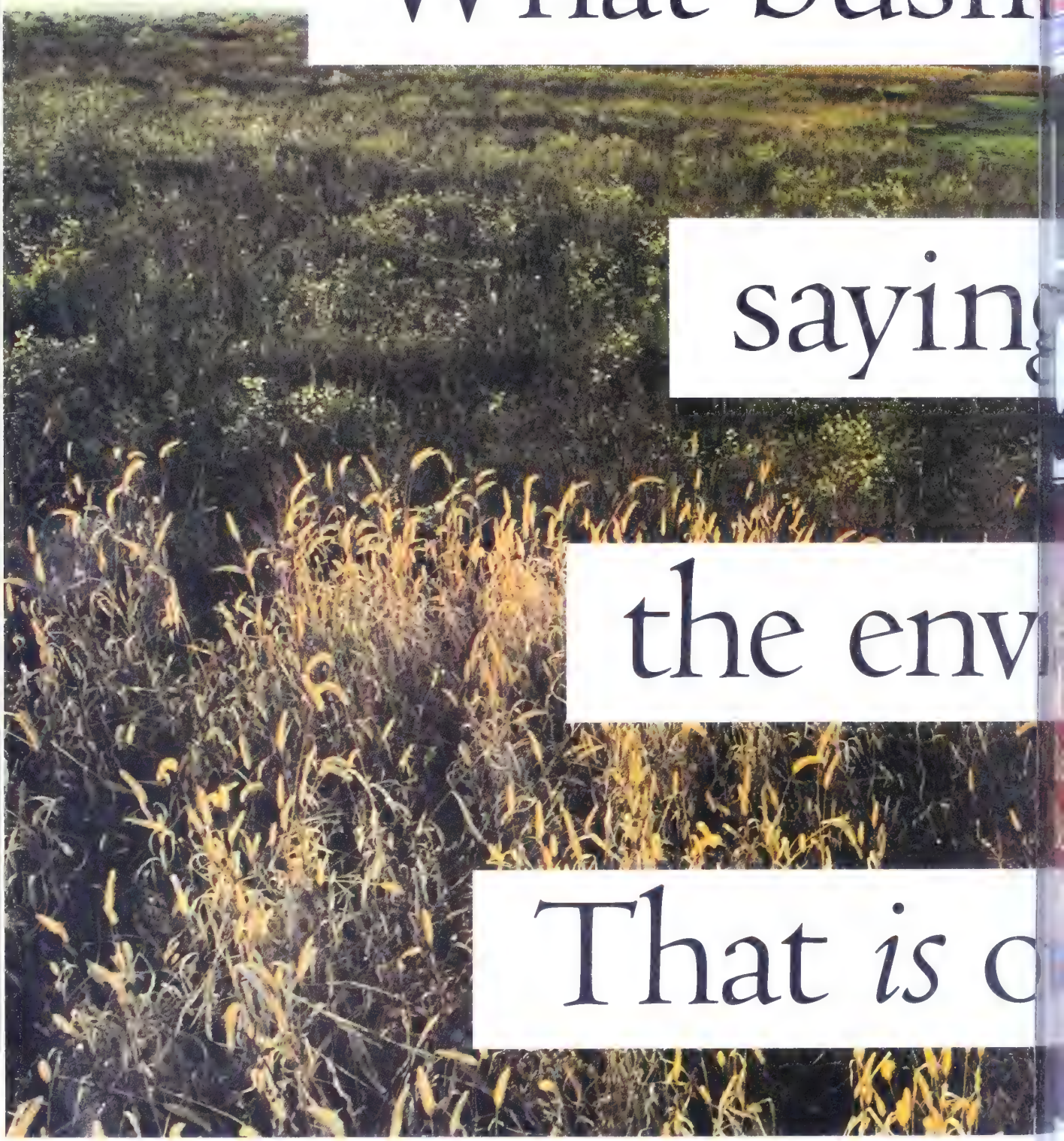

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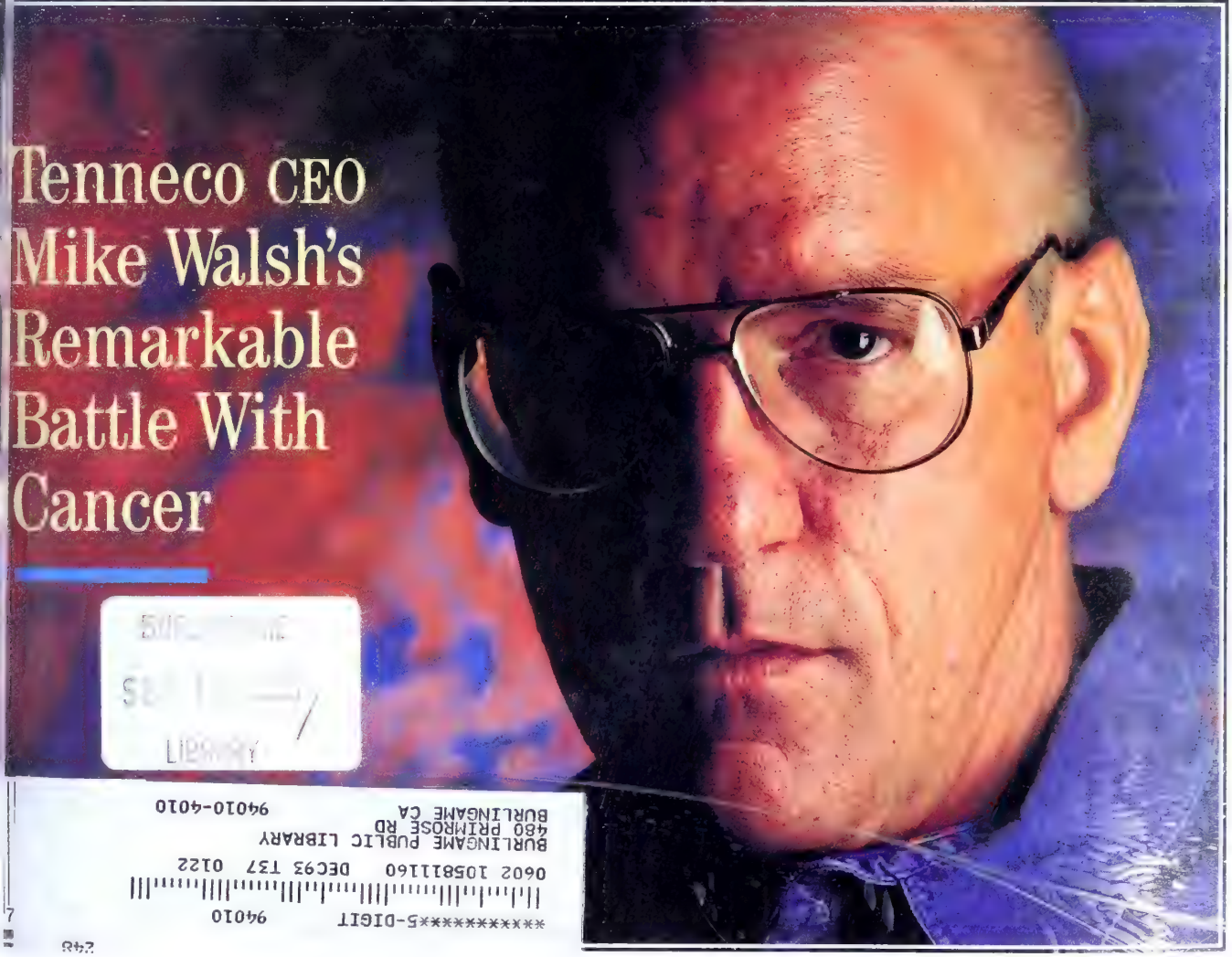
THE FIGHT OF HIS LIFE



Tenneco CEO Mike Walsh's Remarkable Battle With Cancer

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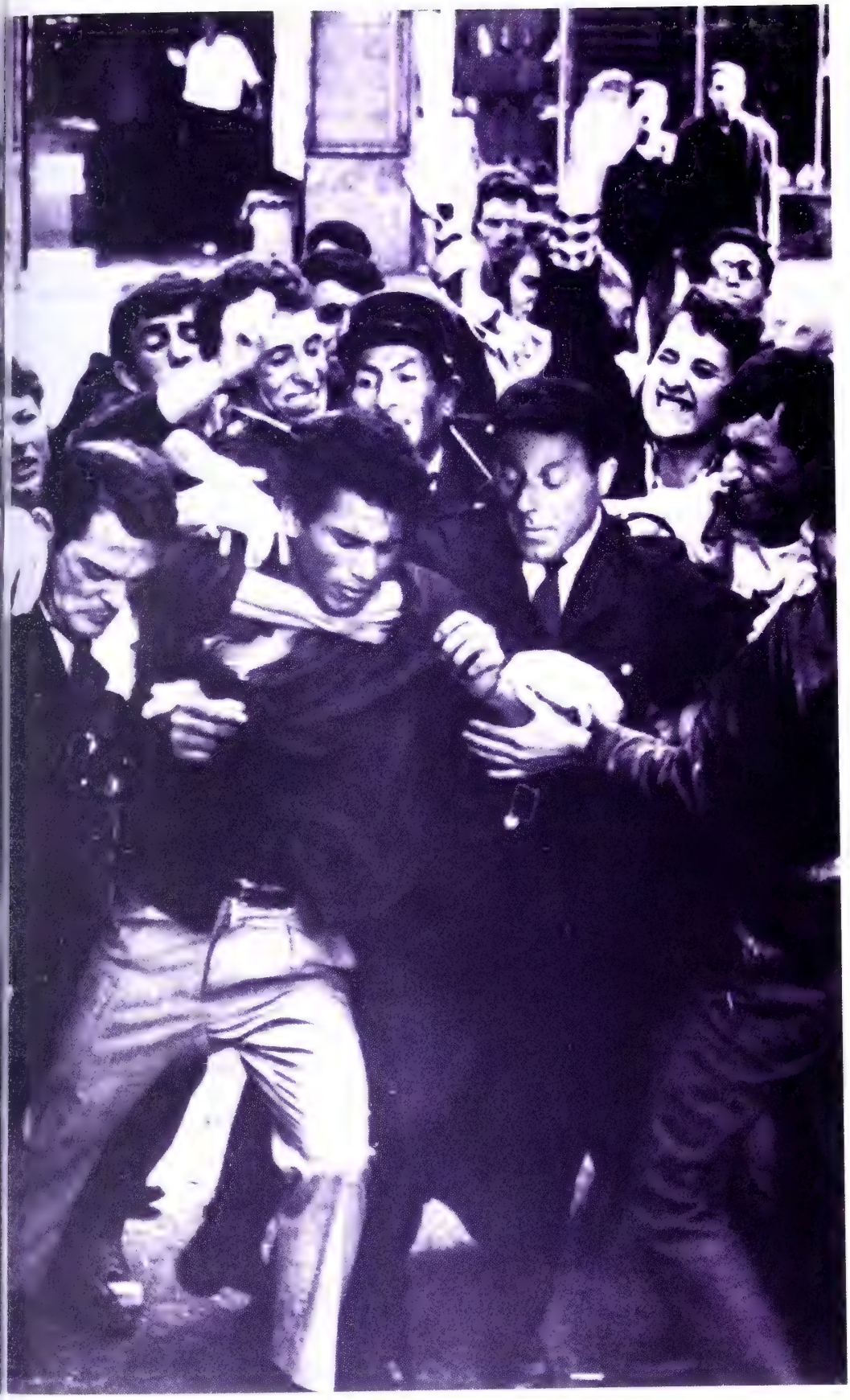

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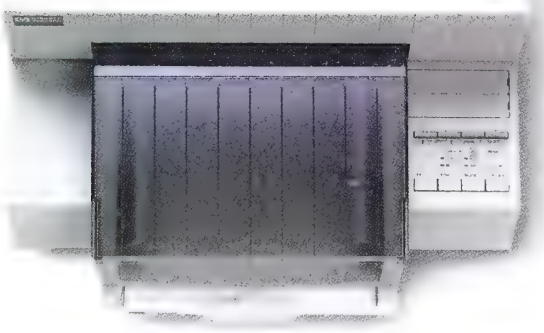
Canon Bubble Jet 200



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NUMBER 3337 BusinessWeek SEPTEMBER 20, 1

"RUTHLESSLY RATIONAL": MICHAEL WALSH'S CONFIDENCE AND CANDOR HAS CALMED TENNECO DURING A PERIOD OF WRENCHING CHANGE

Cover Story

54 THE FIGHT OF HIS LIFE: Battered by cancer and its treatments, Michael Walsh has remained firmly at the helm of Tenneco, where his "no-excuses management" requires that company executives meet targets despite outside economic forces. The question is, can the culture he's instilling handle both the trauma of a restructuring and the tragic implications of his disease?

64 A TOUGH JOB FOR NO. 2 Tenneco's Dana Mead is an able hand should Walsh fail to beat the odds

Top of the News

30 WATCH THE NUMBERS If Clinton's health-care package is to succeed, it must rein in costs

34 COMMENTARY Three Administration fibs that won't help health-care reform

36 A FROSTY RECEPTION Minnesota's iron range reacts to the prospect of health reform

38 SIT PRETTY, RUN SCARED Secure workers are enjoying a windfall, but millions fear layoffs

39 THE ENDLESS BOND RALLY? Slow growth, low inflation: Rates could drop even further

40 PAT CHOATE'S NAFTA NUMBER His new book, written with Ross Perot, draws sneers from economists

42 HOLD THE SWEET AND SOUR Chinese restaurants are feeling the heat from new health concerns

44 IN BUSINESS THIS WEEK DuPont, Big Blue ThinkPads, Murdoch, Video Data Services, DEC's RISC price war, Vietnam trade

International Business

48 EUROPE The submini surge heralds a new direction for carmakers gauging profits from superlean production

49 EUROPE Japan's auto makers are cutting production—and that may be smar

50 ASIA Murdoch hitches a prize to his Star TV

53 INTERNATIONAL OUTLOOK Canadians and Kim Campbell: Love her, hate her policies

Economic Analysis

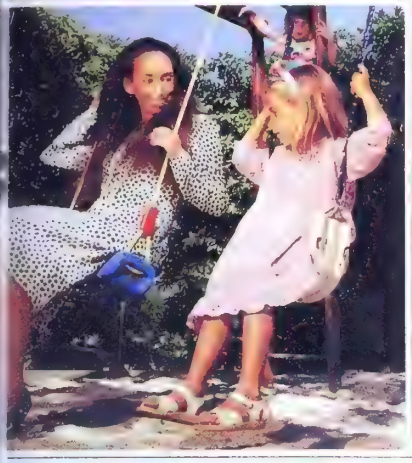
18 ECONOMIC VIEWPOINT Kuttner: Seeing through NAFTA's new clothes

22 ECONOMIC TRENDS Slimmer U.S. profits abroad, punchless consumer spending, risir dividend income, wilting job hopes

27 BUSINESS OUTLOOK The case of the falling payrolls

Government

47 WASHINGTON OUTLOOK Republican House freshmen have a case of NAFTA nerves



1 **SHARON MONSKY'S MISSION: THE EX-McKINSEY FAST-TRACKER IS IN A LIFE-OR-DEATH RACE TO RAISE RESEARCH FUNDS FOR OFTEN-FATAL YET LITTLE-KNOWN SCLERODERMA**

30 **BUSINESS HAS ITS DOUBTS: THE OUTLINES OF CLINTON'S HEALTH-REFORM PLAN ARE EMERGING—AND MANY FEAR IT IS BASED ON FALSE ASSUMPTIONS**

66 **THE McKINSEY MYSTIQUE: GUIDED BY FRED GLUCK SINCE 1988, McKINSEY & CO. HAS BEEN THE INCUBATOR FOR SOME OF AMERICA'S MOST POWERFUL NEW CEOs**

The Corporation

16 **CORPORATE DOCTOR**
When it comes to consulting firms, McKinsey & Co.'s style and stature make it a breed apart

74 **GONE, BUT NOT FORGOTTEN**
Ex-McKinsey people stick together

76 **THIS BUD'S FOR THEM**
Anheuser-Busch is tapping brewers abroad for new markets

77 **OPERATING ROOM MISHAP**
A "brilliant idea" led to Medical Care America. So what happened?

Science & Technology

80 **MONSTER CHIPS**
Demand for Harris Corp.'s electricity-saving circuits should soar

85 **DEVELOPMENTS TO WATCH**
Ozone and refrigeration, ice blasting, top-flight plastics, technology policy, underground radar

Finance

86 **LESS BANG-BANG, MORE BUCKS**
Peace prospects have Tel Aviv stocks soaring. Are nearby markets next?

88 **GREAT GUNS**
Defense companies that made deep cuts watch their stock prices soar

90 **INSIDE WALL STREET**
Sweet music at Gaylord
Who will pick up Medi-Mail?
Mapping genes, saving lives

13 **INVESTMENT FIGURES OF THE WEEK**

Information Processing

92 **LEADING PROGNOSTICATOR?**
After a management crisis, Oracle's profits are up—and so are its ambitions in client-server computing

96 **TELECOM'S ODD COUPLE**
BT and MCI must overcome their diverse backgrounds—quick

People

101 **ONE-WOMAN CRUSADE**
Sharon Monsky is using her considerable marketing skills to draw attention to scleroderma

92 **ORACLE SPEAKS: FOUNDER ELLISON PREDICTS THAT THE "DATA SUPERHIGHWAY" OF TOMORROW WILL BE PAVED BY HIS COMPANY'S SOFTWARE**

Marketing

102 **MAD AVE: BOUTIQUE BOULEVARD**
To placate big clients, agencies are spinning off shops

106E2 **AFTER THE BIG BOOK, A BIG RACE**
Catalogers nab ex-Sears customers

Legal Affairs

107 **STOCK CHEATERS ARE STILL BUSY**
Insider trading is alive and well

Personal Business

108 **BANKING:** Soaked by soaring fees?
SMART MONEY: 15-year mortgages
EDUCATION: Accent make-overs
COLLECTIBLES: The gold-coin rush
LEISURE: Saltwater fly-fishing

Features

6 **BUSINESS WEEK INDEX**

7 **READERS REPORT**

10E3 **BOOK BRIEFS**
Breyer: *Breaking the Vicious Circle*
Mosedale: *The First Year*
Bennis: *An Invented Life*

11 **BOOKS**
Carroll: *Big Blues*
Salgado: *Workers*

6E4 **LETTER FROM NEW YORK CITY**
A movie house for dreamers reopens

111 **INDEX TO COMPANIES**

114 **EDITORIALS**
Clinton's health reform: Just a start
Put pressure on the banks to lend

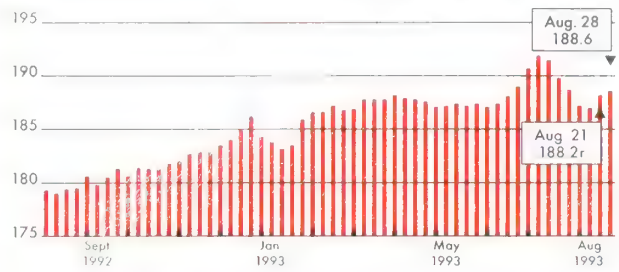
iness Week (ISSN 0007-7135) published weekly, except for one issue in January, by McGraw-Hill Inc. Executive, Editorial, Circulation, and Advertising Offices: 1221 Avenue of the Americas, New York, Y. 10020. U. S. subscriber rate: $46.95/year; Canada: CDN $69/year. Second-class postage paid at New York, N. Y., and at additional mailing offices. Postage paid at Montreal, P. Q. Canada Post ernational Publications Mail Product Sales Agreement No. 246484. **Postmaster:** Send address changes to BUSINESS WEEK, P. O. Box 430, Hightstown, N. J. 08520.

BusinessWeek Index

PRODUCTION

Change from last week: 0.2%
Change from last year: 5.1%

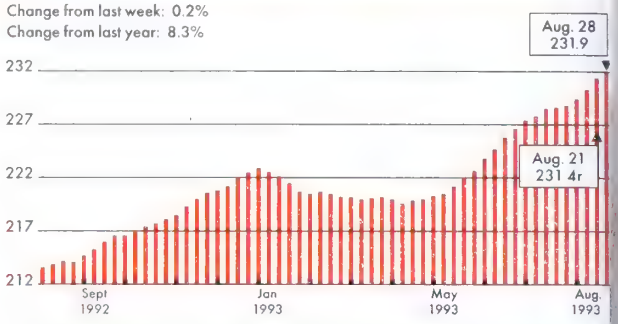
1967=100 (four-week moving average)



The production index increased during the week ended Aug. 28. On a seasonally adjusted basis, autos and coal production and rail-freight traffic contributed to the gain. Steel, truck, paper, and lumber output declined, while electric power, paperboard, and crude-oil refining production levels were all flat. Before calculation of the four-week moving average, the index rose to 190.7, from 189.8. For August, the index fell to 187.8, from July's 188.1

LEADING

Change from last week: 0.2%
Change from last year: 8.3%



The leading index advanced during the week ended Aug. 28. Higher stock pri es, lower bond yields, improved growth in materials prices, and fewer business fa ures offset the negative signs of falling real estate loans and slower growth in M Before calculation of the four-week moving average, the index fell slightly to 231. from 231.8. For the entire month of August, the index jumped to 231.9, from 228 in July.

PRODUCTION INDICATORS

	Latest week	Week ago	% Change year ago
STEEL (9/4) thous. of net tons	1,822	1,856#	10.9
AUTOS (9/4) units	106,347	98,693r#	13.6
TRUCKS (9/4) units	93,672	90,771r#	24.8
ELECTRIC POWER (9/4) millions of kilowatt-hours	67,464	70,312#	12.8
CRUDE-OIL REFINING (9/4) thous. of bbl./day	13,791	13,927#	5.1
COAL (8/28) thous. of net tons	18,468#	17,987	-6.6
PAPERBOARD (8/28) thous. of tons	823.6#	811 6r	5.8
PAPER (8/28) thous. of tons	805.0#	800.0r	1.3
LUMBER (8/28) millions of ft.	440 6#	455.9	-6.7
RAIL FREIGHT (8/28) billions of ton-miles	21.2#	20.7	-1.9

Sources: American Iron & Steel Institute, *Ward's Automotive Reports*, Edison Electric Institute, American Petroleum Institute, Energy Dept., American Paper Institute, WWPA[1], SFPA[2], Association of American Railroads

FOREIGN EXCHANGE

	Latest week	Week ago	Year ago
JAPANESE YEN (9/8)	105	105	124
GERMAN MARK (9/8)	1.61	1.66	1.43
BRITISH POUND (9/8)	1.54	1.50	1.95
FRENCH FRANC (9/8)	5.67	5.82	4.87
CANADIAN DOLLAR (9/8)	1.32	1.32	1.23
SWISS FRANC (9/8)	1.42	1.46	1 27
MEXICAN PESO (9/8)[3]	3.112	3 120	3.102

Sources: Major New York banks. Currencies expressed in units per U.S. dollar, except for British pound expressed in dollars

PRICES

	Latest week	Week ago	% Change year ago
GOLD (9/8) $/troy oz.	351 750	369.050	2.6
STEEL SCRAP (9/7) #1 heavy, $/ton	112.50	112 50	21.6
FOODSTUFFS (9/7) index, 1967=100	212.6	211.8	5.7
COPPER (9/4) ¢/lb.	90.7	91.2	-21.1
ALUMINUM (9/4) ¢/lb.	54 4	54.1	8.6
WHEAT (9/4) #2 hard, $/bu.	3.36	3.34	-4.0
COTTON (9/4) strict low middling 1-1/16 in., ¢/lb.	52.64	52.88	-3.1

Sources: London Wednesday final setting, Chicago market, Commodity Research Bureau, *Metals Week*, Kansas City market, Memphis market

LEADING INDICATORS

	Latest week	Week ago	% Chan year
STOCK PRICES (9/3) S&P 500	462.25	459.34	1
CORPORATE BOND YIELD, Aaa (9/3)	6.61%	6.71%	-1
INDUSTRIAL MATERIALS PRICES (9/3)	95.5	95.4	-
BUSINESS FAILURES (8/27)	306	316	-1
REAL ESTATE LOANS (8/25) billions	$400.3	$401.7r	
MONEY SUPPLY, M2 (8/23) billions	$3,493.4	$3,495.0r	
INITIAL CLAIMS, UNEMPLOYMENT (8/21) thous.	331	324	-1

Sources: Standard & Poor's, Moody's, *Journal of Commerce* (index: 1980=100), Dun & Bradstreet (failures of large companies), Federal Reserve Board, Labor Dept. CIBCR seasonally adjusts data on business failures and real estate loans

MONTHLY ECONOMIC INDICATORS

	Latest month	Month ago	% Cha year
BUSINESS WEEK PRODUCTION INDEX (Aug.)	187.8	188.1r	
BUSINESS WEEK LEADING INDEX (Aug.)	231.9	228.8r	
EMPLOYMENT, CIVILIAN (Aug.) millions	119 7	119.3	
UNEMPLOYMENT RATE, CIVILIAN (Aug.)	6.7%	6.8%	-1

Sources: BW, CIBCR, BLS

MONETARY INDICATORS

	Latest week	Week ago	% Cha year
MONEY SUPPLY, M1 (8/23)	$1,096.7	$1,095.6r	13
BANKS' BUSINESS LOANS (8/25)	268.3	270.3	-9
FREE RESERVES (9/1)	775	309r	-2
NONFINANCIAL COMMERCIAL PAPER (8/25)	158.2	160.2	16

Sources: Federal Reserve Board (in billions, except for free reserves, which are expressed fo two-week period in millions)

MONEY MARKET RATES

	Latest week	Week ago	Ye
FEDERAL FUNDS (9/7)	3.11%	3.19%	3.06
PRIME (9/8)	6.00	6.00	6.0
COMMERCIAL PAPER 3-MONTH (9/7)	3.13	3.17	3.1
CERTIFICATES OF DEPOSIT 3-MONTH (9/8)	3 09	3.13	3.0
EURODOLLAR 3-MONTH (9/3)	3 11	3.13	3.3

Sources: Federal Reserve Board, First Boston

#Raw data in the production indicators are seasonally adjusted in computing the BW index (chart); other components (estimated and not listed) include machinery and defense equipm 1=Western Wood Products Assn. 2=Southern Forest Products Assn. 3=Free market value NA=Not available r=revised NM=Not meaningful

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6E1

Sustainable Development
Reinventing The Firm

The goal of sustainable development requires a profound industrial transformation, one that is part of a broader shift from consuming the natural capital of the Earth to living on the income from that capital. Improved eco-efficiency in industrial processes and in manufactured products can help, but it may not be sufficient. Sustainable development may call for corporations to provide an unprecedented level of stewardship for natural and human systems. That, in turn, may call for reinventing the firm so as to provide the goods and services that society demands in entirely new ways.

Such a transformation may fundamentally alter corporate structures and require new kinds of partnerships. Traditionally, for example, industry sold, the consumer bought, and government regulated. Individual firms competed; cooperation was rare and, indeed, often forbidden by anti-trust laws. Now it is clear that society as a whole – and even future generations – are stakeholders in the activities of individual firms. We need to consider how stewardship of the Earth is best served, which may require new forms of cooperation among firms, between government and the private sector, and between industry and consumers. There is no roadmap to guide the needed changes, no rules for remaking the firm. But some clues can be gained from a number of industrial sectors already in transition.

Electric and natural gas utilities in the United States, for example, are well on the way to becoming energy services companies. In the past, such companies got paid for providing energy and had no stake in how it was used. Now, under enlightened regulatory provisions that go under the name of "least cost energy planning" and that have been adopted in many U.S. states, utilities can get paid for saving energy as well – they can earn the same return on investments in their customers' efficiency as they do for new generating facilities.

The new arrangements give utilities a key role in the stewardship of the energy system as a whole – resulting in lower costs for consumers, less pollution for the planet, and reduced consumption of energy resources. They also empower utilities to educate their customers and to raise technical standards throughout their service areas. Southern California Edison, for example, offers energy audits, incentives to builders of energy-efficient houses and for upgrading electric appliances in existing homes and factories, direct assistance to low-income customers, and technical consulting services to business and industry. Over a decade, its efforts have saved billions of kilowatt hours and thousands of tons of pollutant emissions.

"Networks, coupled with network-ready copiers and printers, could transform the publishing industry, providing on-site, on-demand printing."

With their ability to raise low-cost capital and their long time horizons, utilities are also ideally suited to transform basic energy technologies. A group of U.S. utilities recently sponsored a competition to develop a new, "green" refrigerator – offering a cash prize and a guaranteed market for the winning design. Similar investments in emerging energy technologies, from fuel cells to solar cells, could accelerate a transition to more sustainable sources of energy. U.S. and European utility companies are also beginning to operate in developing countries, providing much-needed expertise in upgrading energy systems globally.

The beginnings of similar transformation can be found in other industrial sectors as well. In Europe, for example, Volvo is working on the development of cars and other vehicles designed to provide a more sustainable transportation system on a community-wide or city-wide scale. Who better than the car companies to assume a stewardship role for urban transportation systems, tackling congestion and rising air pollution, even if it means developing electric cars, van pools that operate on a dial-up basis, or other types of transportation systems altogether?

Xerox is developing not just copiers but electronic document management systems that may obviate the need to make as many copies. More broadly, expanding e-mail networks within companies and growing national and international digital links that can transmit and store documents electronically make it possible to dispense with printed documents until they are really needed. Such networks, coupled with network-ready copiers and printers, could transform the publishing industry, providing on-site, on-demand printing in corporate offices, in university libraries, and in bookstores – supplanting the need to print, ship, and warehouse technical manuals, scientific journals, and even books.

Evolution is a dynamic process, in the natural world and in industry as well. Anticipating the coming industrial transformation and rethinking corporate roles on a large scale – the relationships to other firms, to customers and to society and the planet as a whole – can help companies to survive and thrive as agents of sustainable development.

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WHERE GINGER AND FRED ARE STILL LARGER THAN LIFE

CHILDREN OF PARADISE? MANHATTAN CINEASTS AT THE REOPENING OF THE THALIA THEATER

It isn't much as restored theaters go, but the woman with the big hat and big hair seems happy. I'm here for the reopening of the Thalia Theater, a revival house on Manhattan's Upper West Side. Boarded up for six years and once targeted for the wrecker's ball, it's being reborn this evening, and a crowd of cinema hounds has come to 95th Street to celebrate. My friend Kourosh thinks the scene resembles a cartoon in *The New Yorker*. The woman in the hat is veteran character actress and downtown partygoer Sylvia Miles, nominated for Best Supporting Actress for her role as a blowsy blonde in 1969 Oscar winner *Midnight Cowboy*.

She is the center of attention as she lauds the Thalia's resurrection and Roy Ennacheril, the businessman who made it possible. No one cares that the trademark marquee in neon script is missing. It's enough that the Thalia (New Yorkers pronounce it THAYL-ya), weekend shrine of a few generations of film buffs and aspiring filmmakers, is back.

SUNSET BOULEVARD? In the 1960s and 1970s, New York boasted a number of small to midsize theaters whose stock-in-trade was movie classics, obscure foreign and B-films, or retrospectives of a studio's or director's oeuvre. In 1968, *The New Yorker* routinely carried listings for more than 10 such theaters. One by one, most closed, victims of soaring rents, shrinking audiences, an explosion of VCRs and flicks-for-rent, and the spreading tentacles of cable TV and its myriad of movie channels. It's a sad list: the Fifth Ave. Cinema, the New Yorker, the Biograph, the Bleecker Street Cinema, the Elgin, and more. Some were torn down to make room for the building

spree of the 1980s. The Regency wa taken over by then-expansive Cineple Odeon Corp. and turned into a first-ru theater in 1987. The Elgin was renovate for use as a dance theater. The Biograp was a chronic money-loser when pare Cineplex Odeon rang the curtain down 1991 after a short run.

Now, with commercial real estat prices way down and 1990's New Yor ers seeking affordable entertainmen revival theaters could be poised for comeback. The Thalia joins a growin list of venues for classic, cult, or o scure movies. In 1991, soon after the B ograph closed, the not-for-profit Fil Forum in Greenwich Village began ru ning old films on one of its thre screens. Earlier this year, cineast Fran Rowley leased the Gramercy Theat on East 23rd Street from Samuel Gol wyn Co. and turned it into a revivi house. (Now showing: Elizabeth Tayl in 28 of her 54 features, through Oct ber.) With classics also being screene routinely at the Museum of Modern Ar the Walter Reade Theater in Linco Center, and the American Museum the Moving Image in Queens, Ne York's movie buffs should be all smile

Happy ending? Not yet. Revival v nues are never far from the edge. T making a buck with a theater that on shows old movies. Even now, rents a far from cheap, the revival-house bu ness is labor-intensive compared wi mall multiplexes, and a whole generati of film lovers now rents videocassett instead of going out to see films on t big screen.

"Revival houses are extremely expe sive to run, especially if you do it righ says Karen Cooper, director of the Fil Forum. She and her partner, Bru Goldstein, spent more than $40,000 d ing one recent silent-movie festival—li accompanists aren't cheap, for one thi Then there are schedules to produce—e sential for a bill that may change dai There are no film distributors to p for advertising, as with new releas And box-office revenues vary wildly, d pending on the film. "Nobody ever g rich running a revival theater," says t Gramercy's Rowley. "But money's n the reason you do it."

"LIKE EGG CREAMS." The revival-hou movement began here during Wor War II, when the flow of films from E rope dried up for U. S. art theate Ever since, New Yorkers have lov places such as the Thalia. "New Yo had revival houses before anyone els says Goldstein, director of reperto programming for the Film Forum. "It' New York tradition, like egg creams.

Moreover, it's a tradition that help spawn a generation of filmmakers. Re

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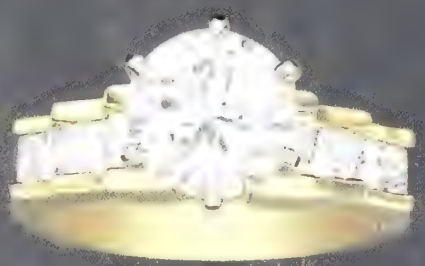

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Letter From New York City

val theaters have always been a sort of film-school annex. "They're the only way you can see and study the work of other actors and directors," says actress Miles. "If you haven't got an idea of history, how can you work in the present?" Director Martin Scorsese spent whole summers at the Thalia as a teenager in New York in the 1950s. "The Thalia would become a major touchstone in my film education," he wrote in a telegram read at the reopening. "I saw *Citizen Kane* on the big screen for the very first time at the Thalia. I saw documentaries ... which had previously been unknown and inaccessible to me and which opened up a whole new world."

Woody Allen, whose movies are larded with allusions to classic films, was another such student of the art. He donated a director's print of *Annie Hall* for the opening night gala at the Thalia (the theater itself is a set in the film).

ACTRESS MILES: "IF YOU HAVEN'T GOT AN IDEA OF HISTORY..."

Allen's own classics are most likely to be seen on the small screens in dens and living rooms these days. "Video ruined the business," says film critic Judith Crist. In 1978, when there were a dozen revival houses in Manhattan, just 402 American households had videocassette recorders, according to the Electronic Industries Assn. Now, there are more than 44 million VCRs in use nationwide, and 320,000 more will be sold this year, the EIA estimates.

BURRITO WASTELAND. But cineasts—and who in Manhattan isn't one?—know that there's no substitute for the big silver screen. "There are some movies you should never see on a small screen, like *Lawrence of Arabia* or all of John Ford's pictures," says Crist. "I don't want to watch Ginger Rogers and Fred Astaire dancing and being the size of Barbie and Ken. I want them to be larger than life, as I hold them in my heart."

Me, too. But when I moved to Manhattan from California in 1991, I immediately discovered two major shortcomings: You couldn't get a decent burrito, and there weren't many revival theaters. As a kid in Los Angeles, I used to go with my dad and two brothers to the funky old Fox Theater in Venice, where we'd see vintage Popeye and Betty Boop cartoons, along with the occasional Marx Brothers comedy.

But I really became a classic-movie hound after college, when I lived for several years in Palo Alto, Calif., home of the Stanford Theater. Until 1989, the Stanford had been just another has-been downtown movie house, slated to be razed. Then David W. Packard, son of the computer-giant co-founder and himself a classic-movie convert, bought the theater and spared no expense restoring it to its original Art Deco splendor. From old photographs, he painstakingly recreated the elaborate ceiling murals and had them painted by the son of the original artisan. He found old molds of the original Spanish-style tiles and used them in the fountains and stairways. I'd often take in a flick on weeknights—*Queen Christina*, say, or *The Maltese Falcon*—and he'd be there, sitting quietly in the dark shadows of the balcony.

DREAM FACTOR. Roy Ennacheril, the savior of the Thalia, lacks Packard's millions, but he is determined to try and make a go of this foray into exhibitorship. When he first immigrated to the U.S. from India in 1973, he worked in a hardware store across the street from the Thalia. He and his son spent many an afternoon there, he says. Both were upset when it was boarded up and left derelict. Ennacheril kept the idea of reopening the place in the back of his mind as he started his own real-estate-development business and watched it grow. Now, he leases the Thalia from the developer that owns it.

He poured more than $150,000 into cleaning up the Thalia and is relying on its venerable reputation—and neighborhood regulars—to keep it open. With its mix of yuppies, intellectuals, and senior citizens, "you can't get a better location for a revival theater than the Upper West Side," says Ennacheril.

But will New Yorkers truly support their revival houses this time? Will there soon be more? "Let's concentrate on keeping the ones that are already open in business," says Sylvia Miles. "You don't need a revival theater on every corner." Perhaps not. But you need a few reliable ones, I think. They're the stuff that dreams are made of.

JULIE TILSNER

Assistant Editor Tilsner grew up about 20 miles away from the "HOLLYWOOD" *sign in Los Angeles.*

(1)

BEING TORN APART
BY WILD ANIMALS.

(2)

BEING BOILED
ALIVE IN ACID.

(3)

TALKING ABOUT
DISABILITY INSURANCE.

(Most people would choose the first two.)

UNUM

Readers Report

THE PITFALLS OF CLINTON'S BUDGET PLAN

Reading Paul Craig Roberts' column is a pleasure. His latest comments ("Clinton's budget isn't just bad—it's unconstitutional," Economic Viewpoint, Aug. 30) are not only wise but include an important warning. Yes, the "spending cuts" in the deficit-reduction plan promise to cut only the rate of growth in new spending, mostly after 1996, adding apparently $1.1 trillion to $1.7 trillion to the national debt in 1994-98.

But I agree that even more important is the retroactivity of taxes the plan mandates, presenting a threat of new precedents. The media certainly did not mention much, if anything, about this during the budget debate. At least this important information has been articulated for the readers of BUSINESS WEEK.

Fred W. Duenckel III
Tyler, Tex.

Paul Craig Roberts writes: "The House Budget Committee estimates that the plan will add $1.1 trillion to the national debt during 1994-98, with deficits averaging $220 billion a year. In contrast, Reagan's deficits during 1981-88 averaged $167 billion." The Reagan figure should be corrected for inflation. The adjusted Reagan average should be $227 billion.

I agree with Roberts when he says: "Misinformation is rife about the deficit reduction in Clinton's plan." Much of it is due to writers such as Roberts.

Robert Kahn
Lafayette, Calif.

Contrary to the opinion of Paul Craig Roberts, retroactive tax laws are not unconstitutional. In Calder vs. Bull (1798), the Supreme Court held that the clauses banning ex post facto laws apply to criminal statutes, not civil laws such as the tax code. Writing for the Court, Justices Chase, Patterson, and Iredell stated that "ex post facto" was a technical term that, since before the Revolution, had come to apply only to laws imposing or increasing criminal punishment. The opinion said the Constitution's makers must have "understood and used the words in their known and appropriate signification."

If Roberts' claim were true, how could the Court allow exceptions for tax increases made retroactive "only" to the date of proposal? Any retroactive criminal law is unconstitutional. If the same clauses applied to taxes, then there would be no exceptions.

Notwithstanding Roberts' policy objections to the Clinton economic plan, the Constitution is safe.

Michael J. Griffin
Oak Park, Ill.

Three cheers for Roberts' column about the unconstitutional Clinton budget plan. Republicans and other opponents of this plan should make haste, lest we lose our last bastion of protection against retroactive tax laws that will confiscate more wealth.

Donald S. Le Vie Jr.
Austin, Tex.

IS THE BEST PRICE FOR A NEW CAR THE FAIREST?

I am an employee of a small, struggling U. S. auto dealer. After reading your article ("Car buying for those who hate to haggle," Personal Business, Aug. 30), I feel you are being unfair to the auto industry. You imply that a good deal is one that's actually below dealer invoice price—since the dealer has an extra 3% profit coming from the manufacturer. What industry can survive on a less than 3% profit margin?

In this tough economy, we are trying hard to win back the customer. Your story perpetuates the idea that we are trying to cheat the consumer.

Geralyn Colvil
Staten Island, N.Y.

I enjoyed your article. Sadly, from a Canadian perspective, it's an old story: There are no services in this country such as those described in your article. We're still haggling in the dark.

But I think I have found a way out, one I can recommend to your readers: When I was looking for an Acura Legend last fall, I visited a single dealer, in a location convenient for me. Then, using

BUSINESS WEEK
SEPTEMBER 20, 1993 * * *3337
ISSN 0007-7135

Published weekly, except for one issue in January, by McGraw-Hill, Inc. Founder: James H. McGraw (1860-1948)

Executive, Editorial, Circulation, and Advertising Offices: McGraw-Hill Building, 1221 Avenue of the Americas, New York, N.Y. 10020. Telephone: 212-512-2000. Telex: Domestic 127039; Intl. 2360127039. U.S. subscription rate $46.95 per year; 2 years, $78.95; 3 years, $104.95. Single copies, $2.75; back issues, $5. Write for rates in other countries. Subscriber Services: 1-800-635-1200. TDD: 1-800-554-1579

Postmaster: Send address changes to BUSINESS WEEK, P.O. Box 430, Hightstown, N.J. 08520. Second-class postage paid at New York, N.Y., and at additional mailing offices. Postage paid at Montreal, P.Q. Canada Post International Publications Mail Product Sales Agreement No. 246484. Registered for GST as McGraw-Hill, Inc. GST #R123075673.
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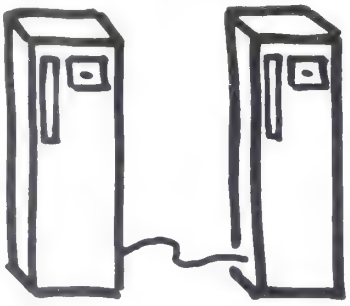

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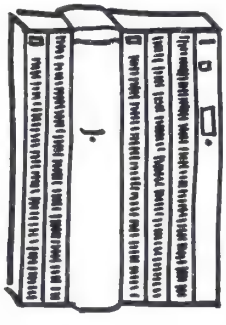

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my word processor and the yellow pages, I faxed a customized letter to sales managers at the 12 Acura dealers in the Toronto region. The letter began with the magic words: "I'm looking to buy a Legend this month." It set out my trade-in details. I asked each dealer to fax me back his best offer and told him I was sending the same request to all his competitors.

The response was remarkable: Only one dealer refused to respond. All others faxed me a reply. (I deliberately didn't give my phone number since I wanted offers in writing.)

Finally, I returned to the original dealer, and told him: "Here's all the information. You can look at the faxes if you want. Match the lowest price, and you've got a deal." And he did, lopping $3,500 off his original quote in order to get the sale. The dealer was, frankly, astonished at what I had done, claiming never to have seen this method before.

Spare yourself the trouble, and shop by fax.

David A. Basskin
Toronto

THE UNION THREAT TO A STRONG UPS

I'm sure happy you published the article "In the line of fire at the Teamsters" (Top of the News, Aug. 30) about the unions and United Parcel Service Inc.

Union leaders are up to their old tricks: trying to cripple a strong, progressive, competitive business that provides service second to none. I deal with common-carrier trucking firms, which are often unionized and, worse, under the "control" of the Interstate Commerce Commission. If you want a nightmare, have a unionized work force overseen by a government agency. That is guaranteed to kill any business—and drive customers frantic.

I deal with UPS almost daily, and they are efficient and competitive. What more can one ask for in business?

Donald Bradley
Plainfield, N. H.

LET'S NOT MISS THE BOAT IN NANOSCIENCE

Every so often, a truly breathtaking technical development happens. "Windows on the world of atoms" (Science & Technology, Aug. 30), on scanning probe microscopes, signaled such a development.

So-called nanoscience will create new markets in biosciences, computers, manufacturing, and entertainment, to name a few. As you note, Japan has already kicked off a $250 million atom-manipulation project. What are we doing, as a country, to nurture American competitors and assure a sustainable position for ourselves? What's our national policy? We can't miss this boat.

Michael L. Holzer
Westport, Conn.

NABISCO: CHURN OUT MORE COOKIE CAKES

As a supermarket owner, I was bothered by a comment in your article "They're not crying in their crackers at Nabisco" (The Corporation, Aug. 30). It stated: "Sales of SnackWell's Devil's Food Cookie Cakes have been so brisk that supermarket managers can't keep them in stock." In reality, we are being rationed to one case (12 pieces) a week per store.

This product has been on the market for almost a year, and Nabisco, one of the world's largest food companies, has an item that can do a tremendous volume. But the company is unable to keep the stores adequately supplied. I have been told by a company source that Nabisco had only one oven baking this product.

If I were a stockholder in RJR Nabisco Holding Corp., I would want to know why this particular problem has not been rectified.

Fred Paul
Roslyn Heights, N.Y.

Editor's note: Nabisco says, "Since we introduced SnackWell's Devil's Food Cookie Cakes one year ago, demand has outpaced our ability to bake the cookie. As quickly as possible, we expanded capacity at the South Dakota bakery where the cookies are made and have substantially increased output in just over a year. We didn't realize how popular the cookie would become. SnackWell's Devil's Food is a difficult cookie to produce, requiring specialized equipment that is not readily available."

TELECOMMUNICATIONS NEEDS NEW RULES, NOT NO RULES

While now is the time for a rethinking of telecommunications regulation, that does not mean that it's time for regulators to get out of the way ("A level field for telecom's titans," Editorials, Aug. 30). The telecommunications industry is currently regulated because it is considered an essential service and remains, in most instances, a monopoly service.

Contrary to what you suggest in your editorial, states have been actively encouraging the development of a modern, efficient, and high-quality public telecommunications infrastructure and promoting competition. For example, states allow at least partial competition in the local exchange.

Simply getting regulators out of the way is not the answer. Competition will not bring immediate and uniform benefits to all consumers, because competition will come more slowly to some areas and services than others. Accordingly, states have been pursuing the wiser and responsible policy of gradually altering the form of regulation as competition emerges. Instant deregulation is not the answer.

Michelle H...
Assistant Dir...
Congressional & Public Rela...
National Association of Regula...
Utility Commissio...
Washin...

THE SALES FORCE DIDN'T CREATE THE MESS AT DEC

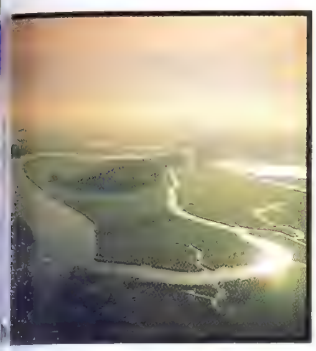
As a member of Digital Equipment Corp.'s sales force for the past [n] years, I find it particularly offensive that we as a group continue to be blamed for the problems facing this company ("Reveille for DEC's sleepy sales force," Information Processing, Aug. [...] I have not witnessed any Digital sales people sleeping in my office. What I see is a group of extremely dedicated, committed, and professional individuals trying to adjust to some major organizational changes.

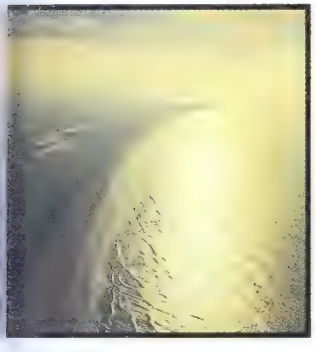
The sales force did not decide on technologies, did not develop the products, or even get to design the marketing campaigns. Our senior management is out of touch with the field. How can one sell "Imagine," the current marketing theme for all of our advertising? We don't need a recipe, but we need simple products for our customers to buy. And after it's sold, we need systems and people in place that let us get back in the field to sell instead of handholding every single order.

We deserve to be treated with dignity and respect. I'm disappointed that management doesn't understand the psychology of badgering the team. I was taught you can get a horse to race a lot faster with some sugar than you can by beating him with a stick.

Peggy L. Haw...
Sales Representa...
Digital Equipment C...
Virginia Beach, ...

Letters to the Editor should be sent to Readers Re... Business Week, 1221 Avenue of the Americas, ... York, N. Y. 10020. Fax (212) 512-4721. All l... must include an address and daytime and evening ... phone numbers. We reserve the right to edit lette... clarity and space.





MORNINGS START SLOWLY, BUT EARLY, ON KIAWAH, WITH COFFEE ON THE SIDE PORCH AND THE COMFORTING RUSTLINGS OF NEWSPAPER. WE MIGHT BE LAUGHING ABOUT SOME STORY AN OLD FRIEND TOLD AT SUPPER LAST NIGHT IN CHARLESTON OR SETTING UP A TEE TIME AT THE OCEAN COURSE. MY DAUGHTER PERCHES ON THE ARM OF MY CHAIR SO I CAN READ HER THE FUNNIES, UNTIL HER BROTHERS THUNDER PAST ON THEIR WAY TO BIKE RIDES AND CRABBING AND OCEAN SWIMS. BEFORE SHE LEAPS UP TO TAG ALONG, SHE KISSES ME GOODBYE AND I GIVE HER MY SQUEEZE OF THE HAND THAT MEANS I LOVE YOU, TOO. THERE'S A LOT OF LOVE IN THIS HOUSE OF OURS, LOVE FOR EACH OTHER AND FOR THIS ISLAND LIFE WITH A RHYTHM AND HEART ALL ITS OWN.

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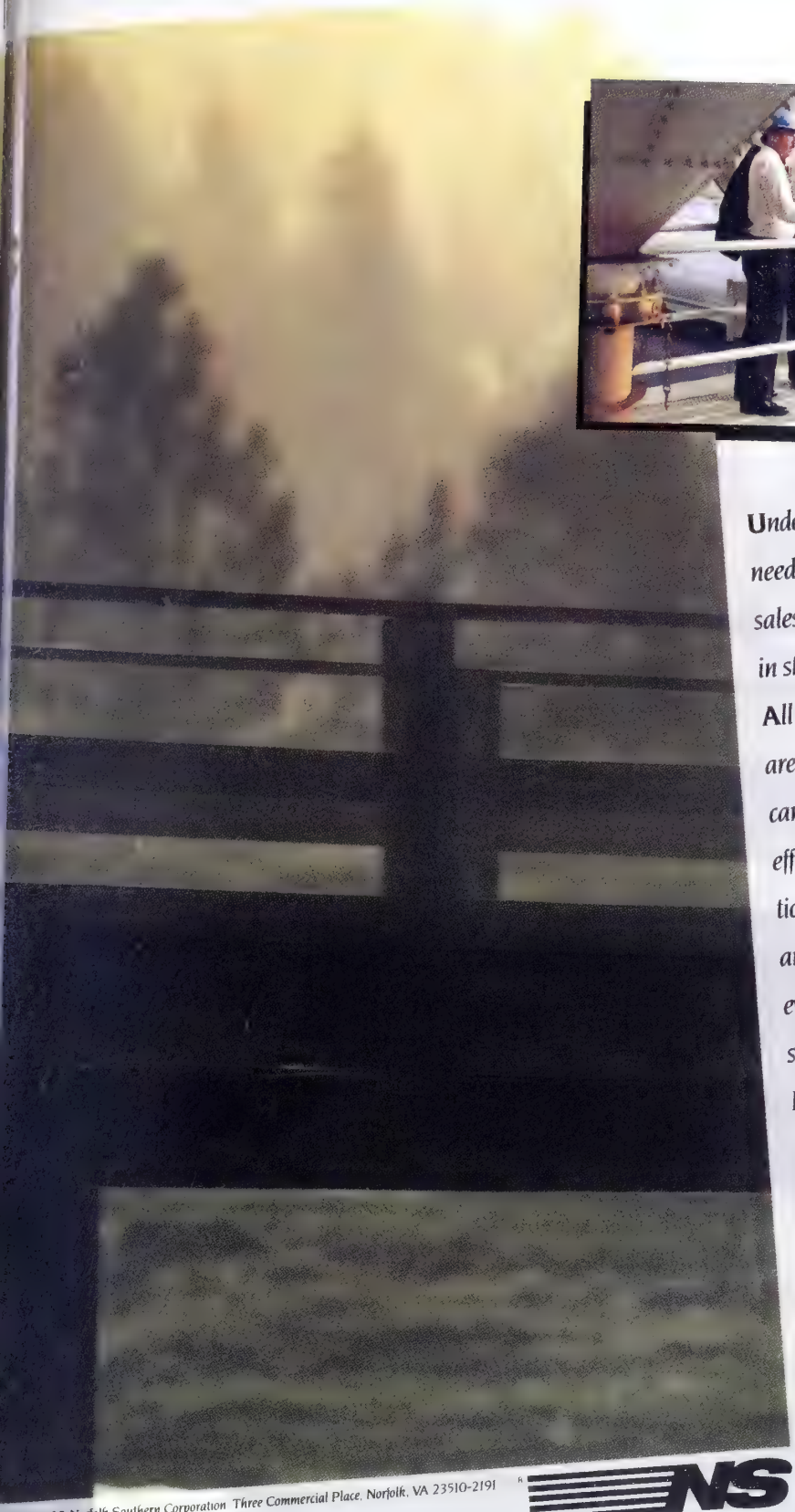

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BRIEFS

BREAKING THE VICIOUS CIRCLE: TOWARD EFFECTIVE RISK REGULATION
By Stephen Breyer
Harvard • 127pp • $22.95

CLEANUP SANITY

In this slim book, U.S. Appeals Court Judge Stephen Breyer tackles one of the most complex of policy issues: how to regulate substances such as Agent Orange, asbestos, and Alar that create public-health risks. The book's strength is its striking simplicity.

Breyer takes the reader by the hand through what he calls a "vicious circle" of skewed public perception, congressional reaction, and scientific uncertainty to show why the U.S. has been unable to balance the cost of regulating substances with the benefit of protecting the public. To begin, people generally react emotionally, based on what they perceive as dangerous—not on what has been proven harmful. Congress, in turn, reacts to those who scream loudest, directing agencies to come up with programs to protect their constituents. The agency staffs then try to write such policies, but they quickly discover that science rarely provides black-and-white answers about the dangers of particular substances.

Instead of peppering his book with discussions of PCBs and parts per trillion, Breyer takes a common-sense approach to legal and scientific fights. Consider a case from his own courtroom. For 10 years, he presided over a battle to force the cleanup of a toxic waste dump in a New Hampshire wetland. Near the end, after 90% of the pollution had been cleaned up, one party insisted that dirt be burned at a cost of $9.3 million. The goal was to make the area even safer for children who might play there. Breyer pierces through legal arguments and environmental science to question the expenditure for a very practical reason: No children are likely to play in a swamp.

Breyer, a liberal who was on President Clinton's short list for the Supreme Court, sets out to find a way to avoid this sort of tunnel-vision expenditure. He is dubious about such options as educating the public about risk assessment or generating greater trust in experts and government institutions. Instead, Breyer proposes a high-powered federal office, insulated from public pressure, whose sole mission would be to make these tough health-policy decisions.

But it's hard to imagine an office so removed from politics, especially when screaming headlines about the latest environmental scare heighten voters' concerns about the safety of their children and their homes. Breyer's suggestion may be naive, but his book at least gives the public an understandable introduction to the complexity of regulating health risks.

BY MARY BETH REGAN

THE FIRST YEAR: A RETIREMENT JOURNAL
By John Mosedale
Crown • 244pp • $22

AFTER THE RAT RACE

A couple of years ago, John Mosedale, a writer for the CBS *Evening News*, noticed that fellow workers kept getting younger, while he was running the risk of becoming "the man everybody called 'Pops.'" To avoid such ignominy, he retired, but decided to keep a journal of how he occupied his time. The good news, he reports, is that life still exists in the uncharted wasteland of retirement, even though one might have to sharpen one's eyes and other senses to live it fully.

Mosedale claims his retirement problems were not much different from those of a punch-press operator or a policeman. But after a life in the pressure cooker of network-TV news, his journal teems with references to "Walter," "Harry," "Andy," and "Dan." Retirement meant withdrawing cold turkey from the "daily adrenaline shot of the deadline." He was helped by a love of books, including "an obsession" with Shakespeare, listening to opera, walking the endlessly varied streets of Manhattan, a Minnesota summer home, his 30-year love affair with his wife, Betty, and a generally tough-minded skepticism toward many commonplaces of modern life, including TV, which he says "was more fun to write for than watch."

This isn't a how-to-retire-happy manual, an idea Mosedale rightly scorns. But it contains an implied message that those who dread retirement might ponder: Make every day count. Regard the familiar with fresh awareness. As the poet said, make it new. A good formula, not just for retirement but for life.

BY JACK PATTERSON

AN INVENTED LIFE: REFLECTIONS ON LEADERSHIP AND CHANGE
By Warren Bennis
Addison-Wesley • 238pp • $22.95

UP FROM T-GROUPS

Few observers of American busir have led lives as interesting as t of Warren Bennis. A professor the University of Southern Californ business school, this management g has lived and experienced it all—fr management's infatuation with T-gro way back in the 1950s to its more rec fascination with what makes for g leadership and how best to overhaul r ganizations to foster greater efficie and responsiveness.

An Invented Life brings toget some of Bennis' more engaging and p vocative reflections. They range fr his 1966 essay on "The Coming Death Bureaucracy" published in IBM's in-ho magazine (if only IBM's senior executi had read and absorbed his ideas) to 1992 article on the virtues of fede ism and its application to the corporate world.

The author writes: "I have been thinking about leadership almost as long as I have been thinking," and indeed, this absorbing collection shows that Bennis has been thinking hard and deep for many years. A good many of his reflections still ring true. These clude the observations that Bennis m more than a decade ago on the cry need for more effective and more tive corporate boards of directors.

To be sure, this book is filled w lessons yet to be learned. You'll clea understand the difference betwee manager and a leader and come to preciate the difficulty of assuming latter role. "A manager administer writes Bennis, "the leader innovates; manager maintains, the leader develo the manager asks how and when, leader asks what and why; the mana relies on control, the leader inspi trust."

In sum, this book is an entertain read from a fascinating person. Te blow-by-blow account of how Bennis w recruited and turned down for the pr idency of Northwestern University the 1970s offers a humorous peek at ademic life. The autobiographical ske that opens the book compellingly cha the life of a true thinker. No won Bennis is still worth reading and thi ing about.

BY JOHN A. BYR

Widget *a* is cheaper than Widget *b*. Widget *a* is better than Widget *b*. Which widget would you choose?

a

b

doesn't take a business degree to test the mer-
s of Visa® versus American Express. All you
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b is to make it possible for customers to spend
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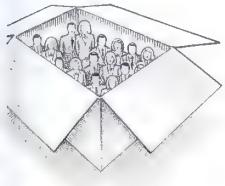

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And if you'd like to figure out exactly how much you stand to save by promoting Visa, ask for our free Profit Improvement Calculator. That number, again, is 1-800-VISA-311, ext. 30.

This concludes our little business quiz. You not only chose the correct widget, but you learned an important lesson, too: The easiest tests aren't always multiple-choice. Sometimes they're obvious-choice.

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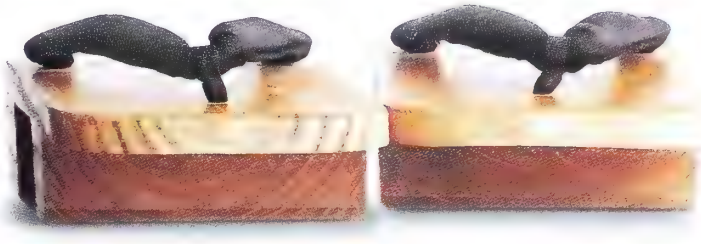

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BLUES: THE UNMAKING OF IBM
aul Carroll
vn • 375pp • $24

OW GOLIATH IAS HUMBLED

ı *Big Blues*, Paul Carroll attempts ,o describe how and why IBM, argu- ıbly the most successful corporation ıe world just a few years ago, has n as hard and as low as it has. He a story of arrogance, greed, and edible incompetence, at both corpo- and personal levels. And he names e names and offers more direct quo- ms than any book to date about IBM. he book is sure to displease a good ber of IBM executives, including per- ; Louis V. Gerstner Jr., the compa- new chairman and chief executive. ır all, he still depends heavily on e of the people Car- portrays as "culturally locked," thick-headed, just plain lost in a changing marketplace. might wonder: If this the caliber of its ers, how did IBM ever as far as it did? Then n, he might not: Car- admittedly relies vily on outsiders—in icular, officials of Mi- oft Corp.—for this de- ising picture.

arroll spins his tale ınd the rise of IBM's ous personal comput- As everyone in the ness world knows, the PC was an instant, e success from its 1981 launch. PCs ; IBM's already fat profits through roof for several years and spawned a ; subindustry—now the biggest seg- ıt of the computer business. Equally ıliar is the story, central to this book, ıow Microsoft, led by one William Gates III, capitalized on IBM's mis- ıs to shape the industry to its advan- ; and grab enormous market power. roll's challenge has been to find a e compelling and perhaps more sce- route through this well-trod territory. ı many ways, he succeeds. Carroll ;ribes the past 15 tumultuous years computer-industry history quite oughly. He serves up enough techni- detail to keep the informed reader rested, yet he doesn't lard on ex- ;ive jargon that might turn off the ıitiated. He keeps the pages turning ı a stream of lively anecdotes, many of which will be new even to those who have followed IBM's woes for years.

Drawing on talks with scores of current and former IBMers and those who have done business with them, Carroll describes a cadre of top IBM executives who, convinced of the infallibility of Big Blue's finely tuned management systems, fall out of touch with the market as the action shifts from high-profit mainframes to commodity-like desktop microcomputers. Carroll seems to relish describing their every stumble—in pricing, product design, layoff policies, you name it. IBM, he writes, became "like a music-publishing company run by deaf people."

Carroll says IBM got to be "like a music-publishing company run by deaf people"

Juiciest of all are Carroll's descriptions of the messy encounters between his two protagonists: Gates and IBM's PC chief, James A. Cannavino. Carroll portrays the former as a near-genius, the IBMer as a somewhat pathetic wannabe. In Carroll's telling, Gates seems to understand the PC and software businesses in his very bones. Cannavino, 100% a product of IBM's mainframe establishment, never seems to comprehend the extent to which Big Blues's clout is fading.

As Gates outfoxes him, the IBM executive becomes more and more flustered. During negotiations over the OS/2 operating system, which IBM engaged Microsoft to co-develop, Carroll reports that Cannavino shouted at his nemesis: "You may think I'm an idiot, but I'm not, and I'm not going to let you make me look like an idiot again."

How does Carroll know Cannavino actually said that? Or that former Chairman and CEO John F. Akers and others really felt the feelings attributed to them on page after page? We cannot be sure, for Carroll frequently doesn't make clear who his sources are. And that's a problem: The tone of this book overwhelmingly favors the winners—Microsoft and the other companies that got rich on PCs. Gates, especially, seems to walk on water, while IBM's doings come in for mounting sarcasm.

Perhaps that's just a function of the circumstances that shaped this book's production. In his forward, Carroll tells readers that IBM declined to cooperate and thanks Microsoft officials for having "spent days" giving him their view of events. They're clearly not disinterested parties, though. Also, judging by the book's rather shapeless structure—the chapters don't even have clear topics—*Big Blues* has the feel of something rushed into print to tap current interest in IBM and Gerstner's predicament.

With more time, Carroll might have fleshed out some important themes. He rather grandly presents his tale as "a sort of Greek tragedy," implying he'll uncover some universal truths in the decline of a computer company. And he says, promisingly, that "IBM's troubles... raise questions about whether big companies can work anymore." Unfortunately, the book has ended up reading like a very long newspaper article, crammed with every tidbit this *Wall Street Journal* reporter could find and missing no opportunity for overdrawn irony or melodrama. Indeed, Carroll's final chapter begins with the gruesome and quite gratuitous description of an IBM employee's attempted suicide—prompted, she tells Carroll, by the increasingly corrosive atmosphere at the company she'd felt such loyalty for.

Carroll also falls short in making sense of IBM's travails. He never actually considers what lessons they hold for other companies, or for the nation as a whole. And by focusing so heavily on IBM's $10 billion PC business, he makes it seem as if its problems alone explain the company's current mess. In fact, IBM's biggest problems are in its $30 billion mainframe business.

Still, *Big Blues* will definitely be en-

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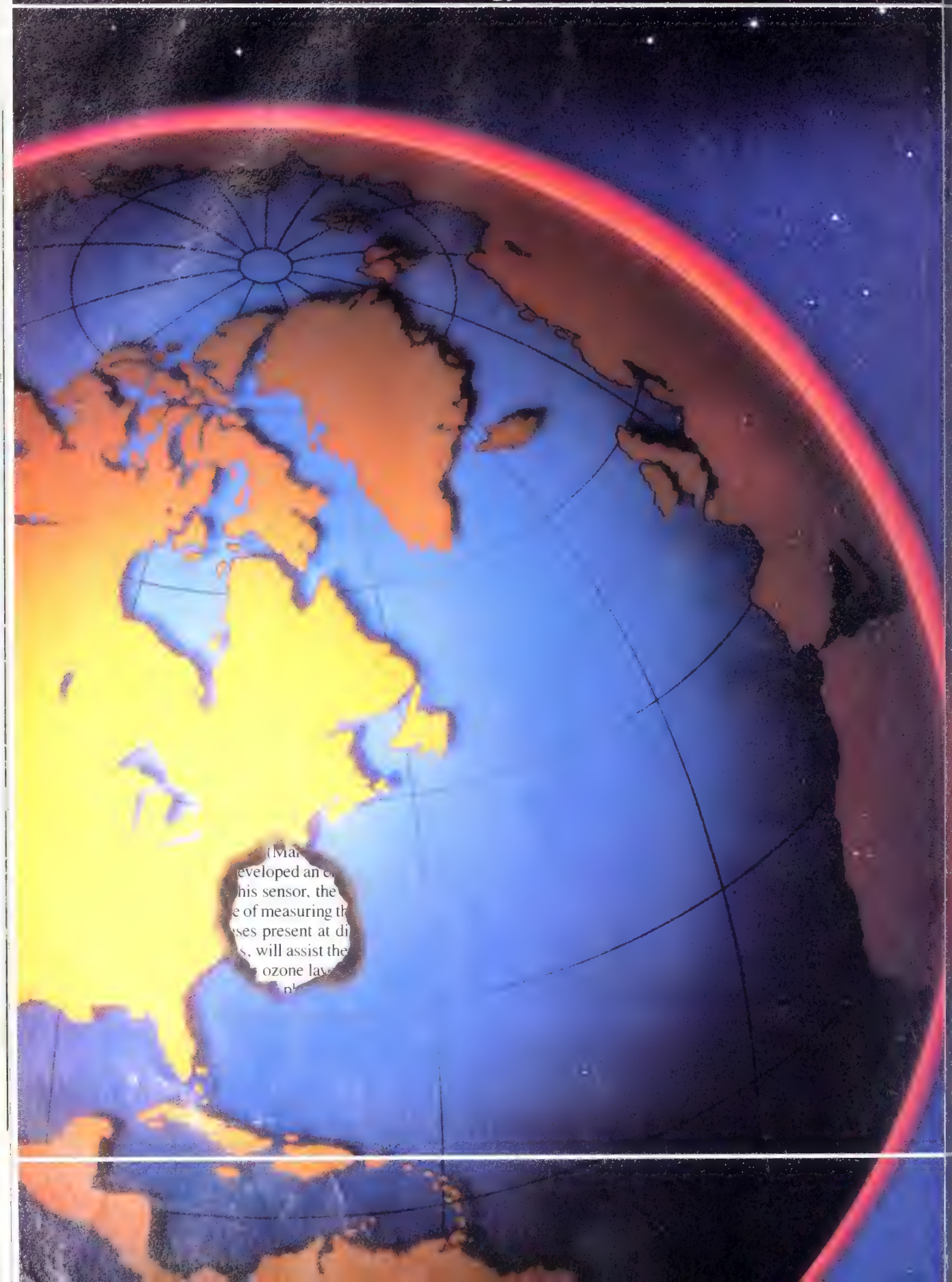

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Books

tertaining for many readers, in and of the computer industry. Don't ta too seriously—you can't. And stay t The story of IBM ain't half over.

BY JOHN W. V

Verity is BUSINESS WEEK's Inform Processing editor.

BOOK BRIEFS

WORKERS: AN ARCHAEOLOGY OF THE INDUSTRIAL AGE
By Sebastião Salgado
Aperture • 400pp • $100

HARD LABOR

Is large-scale manual labor, the gine of progress for millennia, a end? To produce *Workers: An chaeology of the Industrial Age*, Bra photojournalist Sebastião Salgado s six years traveling the globe, docur ing an increasingly rare sight: hu pooling their strength to accom feats of industry, engineering, and struction, largely under the condi such work has been done for centu

Throughout, the workers are dw by their projects, a contrast that nifies their collective accomplishm And whether it's Indonesians clim into a volcano to gather sulfur or v Indian women, with children in working as masons on the world's est canal, Salgado's workers share expression: fatigue, mixed with a l resignation. Sometimes, though, w joy—on the face of a Sicilian fisher pulling in his tuna net, or in the ex sions of French and British workers ebrating the boring of a tunnel lin their two nations.

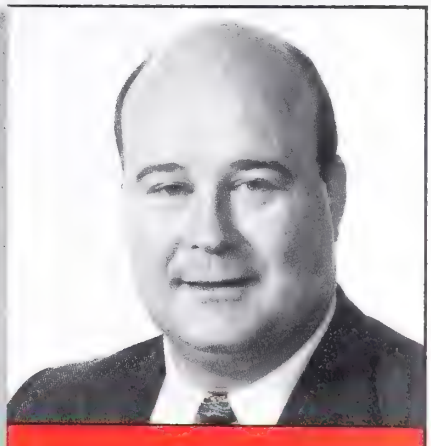
In the introduction, Salgado call book "a visual archaeology" of "a when men and women at work their hands provided the central ax the world." Although often ident with leftist causes, the author says prisingly little about exploitation. I er, he celebrates the subjects of his black-and-white photographs, portra them with reverence and affection.

Salgado does ruminate on just far removed his Third World wor are from the prosperous markets w their products are sold. In one im peasants on the French island of union in the Indian Ocean work large vat, crushing vetiver roots their feet. The aromatic extracts wind up in costly perfume. "These l foot Frenchmen will never be ab buy the result of their labor," Sal notes. In all likelihood, they will never be able to buy Salgado's exqui ly produced book, priced at $100.

BY ELIZABETH

ONE LEADER SALUTES ANOTHER

For the past seventeen years, Business Week has recognized outstanding leadership in the truck industry by conferring the Truck Dealer of the Year Award. We do this in association with the American Truck Dealers, a division of the National Automobile Dealers Association. This year we are honoring Walter R. Fyda of Fyda, Inc. in Columbus, OH. Mr. Fyda was chosen by a team of judges from the Indiana University Graduate School of Business in recognition of industry excellence and exemplary community service.



Mr. Walter R. Fyda

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Why PowerBook is popular with people in DECnet, NetWare and TCP/IP.

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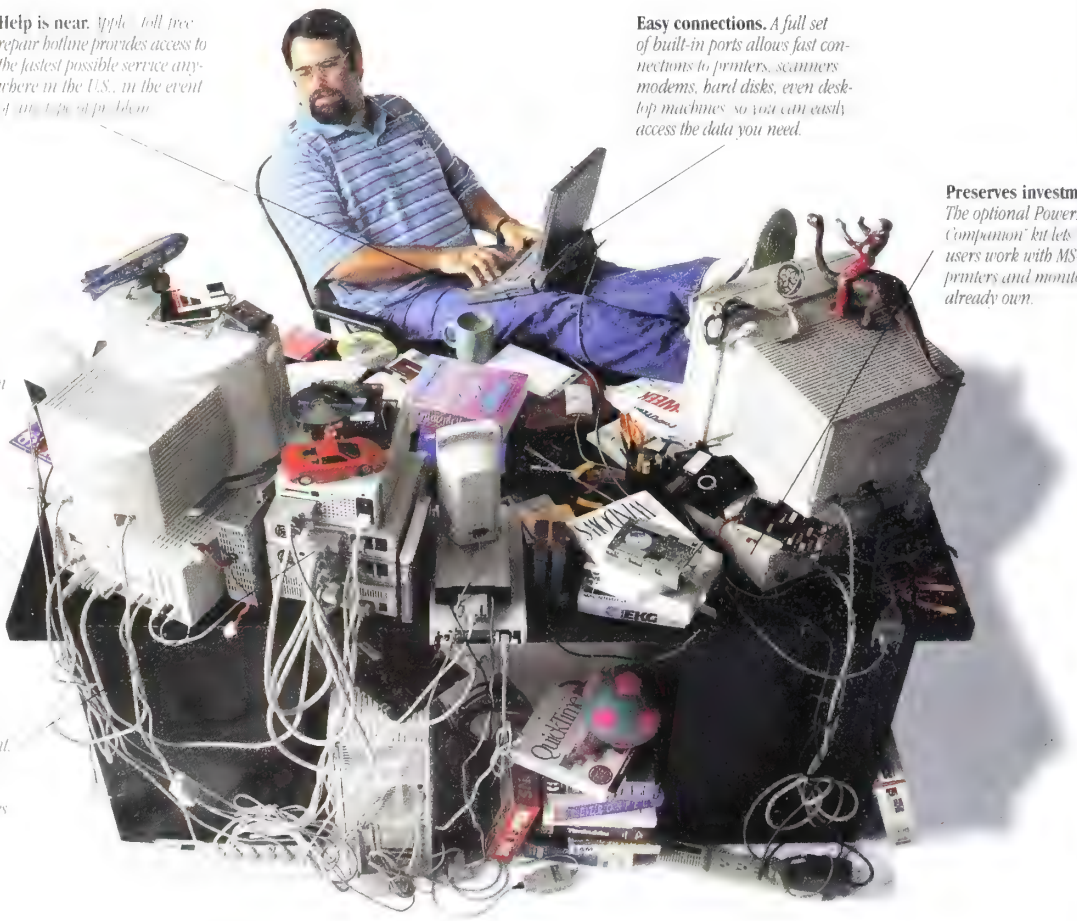

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SEEING THROUGH NAFTA'S NEW CLOTHES

BY ROBERT KUTTNER

As Mexico becomes an adjunct to the U.S. economy, its low-wage drag on prosperity will become a drag on our own

ROBERT KUTTNER IS CO-EDITOR OF *THE AMERICAN PROSPECT* AND AUTHOR OF *THE END OF LAISSEZ-FAIRE*

To oppose the North American Free Trade Agreement (NAFTA) is to be labeled protectionist, jingoist, apologist for declining U. S. industries, as well as callously indifferent to Mexico's poverty. I am none of these. Rather, my case against NAFTA is Keynesian.

Keynesian economics holds that total purchasing power (aggregate demand) needs to roughly balance the economy's capacity to produce; otherwise, supply exceeds demand and productive potential goes unfulfilled. To have a fiscal and monetary policy, not to mention a labor policy, you need a government. But North America is neither a country nor a government. The U. S., Canada, and Mexico have radically different laws, living standards, and notions of what is minimally decent. By pretending we are one country, we risk the country with the lowest wages and the fewest labor rights and environmental protections getting the jobs.

The good free-trader replies that by embracing open trade, we stimulate efficiency and thereby improve those very conditions. But the recent golden age of growth was the post-World War II boom—when trade was encumbered by relatively high tariffs and regulatory barriers that sheltered national economic-development strategies. There was growing global commerce, but it was far from free trade. The advanced nations all had wages that rose with productivity, completing the Keynesian virtuous circle. Japan and Korea, the growth leaders, were among the most highly protected. Mexico, with state-owned and heavily regulated industries, enjoyed annual growth rates in excess of 5%, despite—or perhaps because of—economic nationalism.

FORCED CONVERSION. When Mexico abandoned its economic nationalism in the early 1980s, it was not because the policy had failed or because Mexican leaders had suddenly seen the light. It was because excessive foreign borrowing based on mistaken projections of oil prices—and crushingly high interest costs imposed by Paul A. Volcker's Federal Reserve Board—suddenly gave the U. S. leverage to demand that Mexico's leaders become converts to free-market policies.

In the 1980s, Mexico's real wages fell by over 30%. As interest rates have come down, Mexico has begun to recover, but real income is still well below its 1980 level. Against this history, NAFTA was devised as a reward for Mexico's forced conversion to the economic theories of the Reagan-Bush era. As repentant free-marketers, the Mexicans would enjoy preferential access to the U. S. market.

I offer this revisionist history not to commend protectionism but to suggest that the case for free trade is exaggerated. Extr protectionism is surely bad. When every tion protects, as in the 1930s, the world e omy contracts. But far more important t perfectly free trade is whether nations the world system are pursuing high-gro full-employment policies.

SHORT-LIVED BOOM. Defenders of NAFTA claim that the gains of freer trade wil roughly symmetrical. As a poor, low-skill c try, Mexico will attract low-skill jobs, lea better ones to materialize here. But as versity of California at Berkeley researc Harley Shaiken has shown, there is a huge vergence between Mexico's rising skills lagging wages. It is precisely this disp that makes relocation there so attractive skilled jobs in the auto and electronics in tries move south, there is no pressure to Mexican wages because of its massive un ployment. And as long as Mexico's wages behind its productivity, the purchasing p necessary to import goods from the U. and hence to provide offsetting U. S. jo will lag, too. The current boom in export U. S. capital goods to Mexico is likely t short-lived as Mexico diversifies its suppl

Henry Ford's insight was Keynesian: smart to pay employees enough to en them to buy the products they make. Mexico's auto workers, though nearly as ductive as their U. S. counterparts, are under $2 an hour and cannot afford to buy cars they build. As wages lag behind out supply outstrips demand. And as Mexico comes an adjunct of the U. S. economy, low-wage drag on Mexico's prosperity bec a drag on our own.

To date, there is one useful byprodu the NAFTA debate. Last month, when the posed side agreement on labor standards shown to House Majority Leader and NA critic Richard A. Gephardt (D-Mo.), he missed it as window dressing. After h consultations, Mexican President Carlos Sa de Gortari offered a new concession: Mex wages would begin rising in proportio Mexican productivity. This unenforce promise introduces a Keynesian test into trade debate.

If we truly wish to improve living s dards in Mexico, it is not smart to th away our own. Rather, we might gradu liberalize U. S.-Mexico trade if Mexican w and conditions rise with productivity. Pl note that this Keynesian case against NAF rather different from that of Ross Perot, is no Keynesian. Presumably this strange fellowship embarrasses Perot as much embarrasses me.

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JOHNSON CONTROLS

BY GENE KORETZ

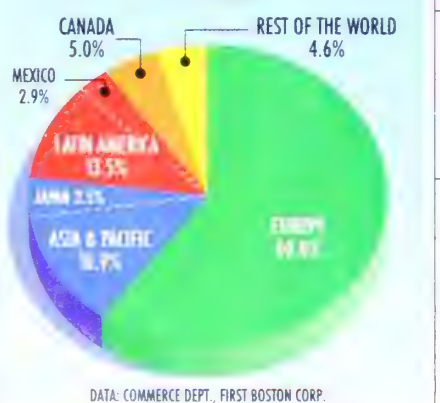
WHERE AMERICA'S BOTTOM LINE MAY BE SQUEEZED OVERSEAS

Everyone knows that U. S. corporations have become increasingly global in their operations—a development that has increased the sensitivity of their bottom lines to currency shifts and foreign economic trends. But the fastest growth of American direct investment abroad hasn't necessarily been in areas one might suspect.

"To a surprising degree," says economist Rosanne M. Cahn of First Boston Corp., "U. S. corporations seem to prefer to form direct-investment ties in the more stable, developed countries and to avoid heavy investment in the fast-growing developing world."

Cahn draws this conclusion from Commerce Dept. reports on foreign profits of U. S. companies from 1982 to 1991, the last year for which detailed numbers are available. The data indicate that such profits—which reflect acquisitions as well as expanded subsidiary operations—rose at a compound annual rate of 10.8% in that nine-year period. That's almost twice as fast as domestic profits of the same U. S. multinationals.

THE FOREIGN CONNECTION:
OVERSEAS PROFITS OF U.S. COMPANIES
1991 SHARES



DATA: COMMERCE DEPT., FIRST BOSTON CORP.

Foreign profits earned in Europe were particularly strong, rising at a 16.6% annual rate in dollars (and a 14.5% pace in European currency terms). But foreign profits earned outside of Europe, Canada, and Japan grew at only half the rate of total overseas profits.

Such data, says Cahn, suggest that "as recently as a year or so ago, U. S. companies were still not expanding direct investment outside of industrialized countries with any conviction." Apparently, their primary strategy to take advantage of low labor costs in the developing world is still focused on importing cheap goods made by local companies.

The upshot is that developed countries now account for more than two-thirds of the foreign profits of U. S. companies. And Europe, whose share has risen from 43% of all foreign profits in 1982 to just over 60% in 1991, is by far the area of deepest concentration. Scanning various industries, one finds that U. S. multinationals in oil, drugs, soaps, computers, electronic components, motor vehicles, tobacco, advertising, and data processing each derived at least a third of their total sales from foreign markets in 1991.

All this implies that the multinationals could take a sizable hit this year. Whereas their foreign operations normally contribute perhaps 30% of their total profits, the foreign share jumped to over 70% in 1991, as the U. S. recession and huge write-offs ravaged domestic earnings. In 1993, however, the deepening recession in much of Europe combined with weakening European currencies against the dollar suggest that overseas profits will be unusually slim.

ARE CONSUMERS SPENDING MORE ON THE WRONG THINGS?

Without doubt, consumer spending has been one of the economy's stronger suits this year, rising by $119.1 billion, or a 4.8% annual pace, since December. Economist William V. Sullivan Jr. of Dean Witter Reynolds Inc. points out, however, that the spending pickup has been "concentrated in categories that give little promise of the multiplier effects that spurred job creation and income growth in past expansions."

For one thing, Sullivan points out that a third of the rise was spent on housing services and household operations—areas that were dominated by a big jump in the "imputed" rental cost of owner-occupied housing and by higher utility bills for electricity and natural gas. And some 27% of the total increase went for medical care—mainly higher doctor fees and hospital outlays, which seem to reflect continuing high medical-care inflation.

At the same time, Sullivan notes, the notion that auto sales are roaring ahead seems highly exaggerated. Indeed, personal expenditures on new cars were actually lower in July than last December, while used-car purchases are up at only a 3.8% annual rate—"and used-car sales do far less for the economy than spending for new vehicles."

"Unfortunately," says Sullivan, the strongest areas of consumer spending appear to be either those over which consumers have little control, such as medical care or utility bills, or those which do not generate large job gains.

DIVIDEND INCOME HELPS CHASE AWAY THOSE FALLING-RATE BLUES

Whatever the benefits of falling interest rates for borrowers, there's no denying that the household sector as a whole, which saves more than it borrows, has been taking a beating. Indeed, net interest income in the second quarter was down $45 billion, or nearly 10% from its peak in late 1990.

The good news, says economist Gail E. Schlossberg of Wells Fargo Bank, is that households' dividend income is finally taking up the slack, as a result of rising dividend hikes by corporations and growing household equity investments. Since the first quarter of 1992, she notes, personal dividend income has risen 12.5%, or $16 billion—enough of an upswing in recent quarters to more than offset the drop in net interest income.

Not everyone is benefiting from this development. Schlossberg notes that older households, particularly retirees, remain highly dependent on interest income and tend to regard equities with a wary eye. "It's the baby boomers who are probably benefiting most," he says. "They're more heavily invested in stocks and they're now getting a double payoff from falling rates on their mortgages and rising dividend income."

JOB HOPES WERE WILTING AT SUMMER'S END

Notwithstanding the confusing August employment numbers (both the jobless rate and payroll employment declined), two recent reports suggest job growth will stay subdued. Challenger Gray Christmas Inc., an outplacement firm, counted nearly 47,000 planned corporate job cuts in August. That's the second-highest monthly tally of labor announcements since January.

Meanwhile, the National Federation of Independent Business reports that its small-business optimism index in August fell back to recession levels. The expectations of better economic conditions by small business owners, who are responsible for all of the job growth in recent years, sagged to a 20-year low.

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SURVIVING THE PEACE

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Surviving the Peace: The Conversion and Realignment of the Defense Industry

Date: Tuesday, November 30 and Wednesday, December 1, 1993
Place: The Regent Beverly Wilshire Hotel, Los Angeles, California

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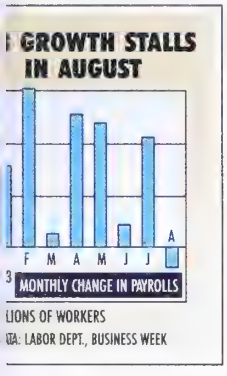
MBER 20, 1993

BY JAMES C. COOPER AND KATHLEEN MADIGAN

HE PERPLEXING CASE F THE PLUMMETING PAYROLLS

he August report on the U. S. labor markets was bad news for the economy. Or was it? The headline grabber was a loss of 39,000 jobs from company olls, compared with a widely expected gain of 140,000). A deeper look at the numbers, however, reveals a ewhat brighter picture—one that's a lot less worrisome hird-quarter economic growth.

espite the lower job total in August, the workweek ss most of the economy rose, as did hourly earnings, the unemployment rate continued to edge down. , the Labor Dept. discovered some 50,000 more peo- it work in July than first reported, lifting that month's to 211,000, from 162,000 originally.



Moreover, the government's survey of households, which is separate from its payroll head count taken from businesses, showed a large rise in the labor force in August and an even greater gain in people who said they had found work. That explains the downtick in the jobless rate, from 6.8% to 6.7%, the lowest in two years.

The recent downtrend in first- jobless claims suggests that, for August at least, the ehold survey tells the more accurate story. The week- verage of new filers in August dropped to the lowest l in any month during the past four years.

n balance, the claims data, the downtrend in joblessness, the contradictory household numbers, and the ngth in hours and earnings suggest that the August n payrolls probably overstates the weakness in the la- markets and that payrolls in September are likely to v more bounce than they did last month.

BOR ARKETS OVE RATIC

To be sure, job growth during this recovery has been the slowest in any postwar upturn—a result that has injured the national psyche (page 38). But one characteristic of the labor markets—and of the recovery gen- y—is their tendency to move in fits and starts (chart). nat's what happened in March and June, when payroll s slumped to 26,000 and 43,000, respectively. Those inses, like the August loss, are the statistical equivalent o change. But sandwiched around those months were s ranging from 200,000 to 300,000. The economy has erated 1.2 million jobs in 1993, and the total will come e to 2 million by yearend.

That's because continued gains in hours worked and take-home pay in August imply that the economy is on a firmer footing in the second half than the payroll losses might suggest. The U. S. workweek rose by 12 minutes last month, to 34.7 hours. That equaled the May reading, which was the longest in more than four years.

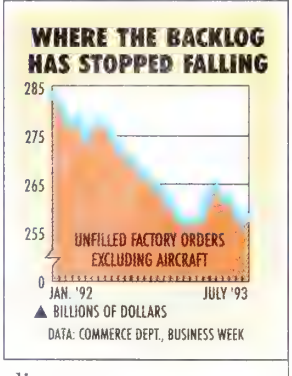
So despite the August job losses, total hours worked by all employees rose for the second consecutive month. That's a sign that, so far through the third quarter, economic activity is on the rise and that the economy is capable of posting growth of 3% or better this quarter.

The Federal Reserve's latest summary of economic activity from its 12 regional banks across the nation concludes that the economy continued to grow at a "slow to moderate" pace in late July and early August. At the same time, though, the report noted that corporate restructurings, including sizable layoffs, are "taking the bloom off employment growth."

FACTORY JOBS ARE AT 1965 LEVELS

Activity in the struggling manufacturing sector might also be a little livelier than the job numbers imply. The Fed reported that production and sales in manufacturing were increasing in many regions.

Factory workers have borne the brunt of the economy's job losses in recent years. Since 1989, manufacturing has shed 1.8 million workers, nearly 800,000 since the recovery began, including an additional 42,000 in August. Factory employment is now the lowest since 1965, and manufacturing's share of jobs has dwindled to only 16%, down from 20% in 1983 and from 26% in 1973.



But at the same time, the factory workweek rose by six minutes last month, to 41.5 hours. That equals the April level, which was the longest in 27 years. And factory overtime jumped from 4 hours to 4.2 hours, the most overtime in the postwar era. So in August, manufacturers appeared to be lifting their production for the second consecutive month, even as they continued to hand out more pink slips.

Another sign that manufacturers are getting busier is the July increase in unfilled orders other than aircraft (chart). While new bookings for aircraft and parts account for less than 3% of factory orders, unfilled aircraft orders make up more than 40% of the total backlog. The

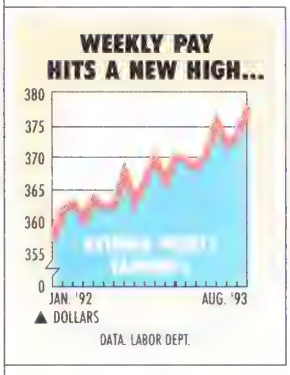
overall backlog has been in a steady decline this year, but excluding aircraft, unfilled orders rose in July.

On the surface, the 2.1% drop in new factory orders in July looked ominous. It was the largest decline in a year and a half. However, a 37% plunge in bookings for aircraft and parts, which had soared 53% in June, accounted for two-thirds of the month's overall loss.

The increase in unfilled orders other than aircraft, combined with longer work hours, suggests that many manufacturers are seeing firmer demand and the need to lift production. If so, factory job losses may well taper off in coming months.

WALLETS ARE FEELING FATTER

Another positive aspect of the August job report was its implication for consumer income. Last month's longer workweek, combined with an increase in hourly pay, says that income continues to rise, laying the foundation for further gains in consumer spending and giving consumers the financial basis to expand their credit.



Households already saw their real aftertax incomes grow at an annual rate of 5.9% in the second quarter—much faster than the 3.2% pace of real consumer spending. Excluding a sharp drop in farm income in July, reflecting the floods in the Midwest and drought in the Southeast, real income started the third quarter well above the second-quarter level.

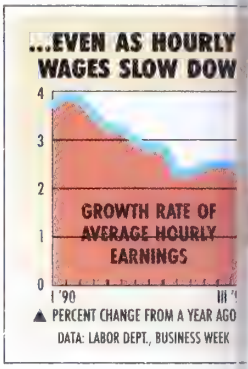
In August, income made further gains. Average hourly pay for production and nonsupervisory workers across the economy jumped 0.5%, to $10.87. So even despite the dip in payroll employment, the higher wage rate plus more work time means that average weekly earnings rose sharply, by 1%, to a record level.

Even though the yearly pace of hourly earnings h slowed, to 2.2% in the third quarter from 2.3% a year a the growth of weekly pay has actually picked up som what. In fact, this year, weekly pay has risen at an ann rate of 4.5%—well above the inflation rate (charts).

Moreover, hourly service pay is closing the gap with t higher pay of manufacturing jobs. The hourly wage rate the private service sector stood at $10.20 in August, co pared with $11.79 in manufacturing. And excluding re tively low-paying jobs in retailing, service pay averag $11.38 last month.

Private services other than retailing have accounted close to 80% of all job growth during the past year. Th suggests that many of the new service-sector jobs that being created during the recovery offer pay that is creasingly comparable to salaries in manufacturing.

The service sector has created all of the economy's new jobs this year, and that's the reason August employment looked so weak. After monthly gains averaging 180,000 through July, service-sector employment managed only a 15,000 increase in August. That advance is so far off the recent trend that September service jobs seem likely to bounce back strongly.



There is no question that U. S. workers continue bear most of the burden of this frustratingly slow covery, as companies try to stay competitive both home and abroad by slimming down, cutting costs, and vesting more in equipment than in people in an effort boost productivity.

However, though they didn't grab the headlines, the tails of the August employment report imply that recovery is on solid ground and that future payroll figu are likely to look much stronger.

THE WEEK AHEAD

RETAIL SALES

Tuesday, Sept. 14, 8:30 a.m.
Retail sales were probably unchanged in August, according to the median forecast of economists surveyed by MMS International, a division of McGraw-Hill Inc. Sales rose just 0.1% in July. Excluding weak car buying, though, August store receipts likely rose a healthier 0.3%, on top of a 0.4% gain in July.

CONSUMER PRICE INDEX

Tuesday, Sept. 14, 8:30 a.m.
Consumer prices likely edged up by 0.2% in August, after a 0.1% increase in July. Excluding food and energy, prices probably rose 0.3%, on top of a 0.1% rise in July. Housing costs likely rebounded last month, after registering no change in July. Apparel prices may have spiked higher because of the introduction of back-to-school clothing in August.

BUSINESS INVENTORIES

Wednesday, Sept. 15, 10 a.m.
Manufacturers, wholesalers, and retailers probably added little to their inventories in July, after a 0.2% gain in June. Factories have already reported no change in their stock levels for July. Business sales probably fell 1.5% in July, after rising 0.2% in June.

MERCHANDISE TRADE DEFICIT

Thursday, Sept. 16, 8:30 a.m.
The MMS forecast calls for the trade deficit to come down only slightly, to $11 billion in July, from June's shockingly large $12.1 billion. Exports are pected to increase after falling 3.3% June. Imports, which soared 5.3% June, were probably flat in July. T large trade gap forecast for July mea that foreign trade remains a probl for the U. S. economy.

INDUSTRIAL PRODUCTION

Thursday, Sept. 16, 9:15 a.m.
Industrial output probably rose 0.4% August, after advancing 0.3% in Ju Despite factory job losses, record ov time suggests the manufacturing sec was busy. Also, auto makers revved production schedules for August. Op ating rates last month likely rose 81.7%, from 81.5% in July.

ERIC HOFFMANN BW

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BUSINESS CAN'T HIDE ITS DOUBTS

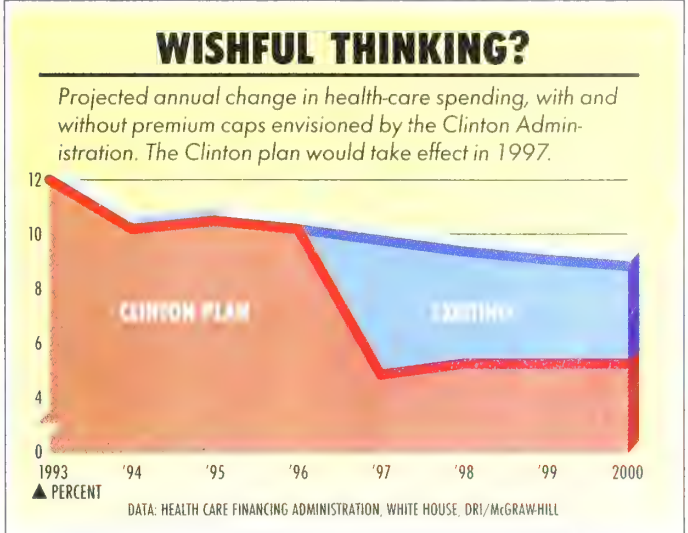
MANY FEAR CLINTON'S HEALTH PLAN IS BASED ON FALSE ASSUMPTIONS

attered by years of relentlessly rising medical costs, Corporate America has been at the forefront of the drive to overhaul the nation's th system. Now, that overhaul has ved in the outlines of a sweeping health plan that President Clinton unveil in a speech to the nation on . 22. But the details of Clinton's re- have some executives ng, "Can we get a second ion?"

he plan, developed under ary Rodham Clinton, aims lend two hugely ambitious seemingly incompatible ls: extending health insur- to all Americans without or new taxes, while con- ing the relentless growth he $900 billion health-care stry. To accomplish this, scheme calls for wrench- changes in the way health is financed and delivered. employers would be re- ed to pay for health cov- e for their workers. Every Ameri- would be eligible for a standard age of benefits. They would be pur- sed through massive, state-run lth alliances" that would use their t to hammer down prices.

QUEEZE? Will the plan work? Politi-, the blueprint sounds a starting for a Congress under sure to address a grow- source of insecurity for ly Americans. But few ide experts think that the tonites can slam the es on the health industry out economic and political lash. Economists worry requiring all employers pay for insurance will eeze some 500,000 low- e workers out of their . The potent elderly lobby earing up to fight the $100 n Medicare cut that re- s from the plan's spending . Insurers warn that cost rols will cut into care. ne plan's biggest flaw is lependence on a heroic as- ption championed by top White se health planner Ira C. Magaziner: the new Clinton scheme can slash double-digit rate of increase in medi- spending almost in half in the first e years of reform (chart). As things d now, the cobbled-together Clinton , itself a series of delicate political budgetary compromises, isn't capa- of pulling that off. "The proposed savings are illusory, because the assumptions are crazy," says an Administration insider.

Beyond the Potomac, business leaders have fears of their own—mostly, that they'll give up control over health-care benefits without gaining control over costs. Companies that are already aggressively containing costs worry that the Clinton approach will wrap competition in a heavy layer of regulation. The plan would take 98% of all companies out of the benefits business and turn 70% of the market over to the new alliances. Business fears the resulting bureaucracies will stifle innovation. "I'm not sure turning the system upside down is the way to fix these problems," says Edwin Moore, owner of Electric Metering Co. in suburban Chicago.



If competition doesn't shave medical spending, the plan has a backstop: "premium caps," which would limit rises in insurance premiums. But price controls have a dubious track record: Companies typically spend more time beating the price ceilings than they do managing. And when the controls are lifted, cost pressures that had been building explode. In the interim, doctors and hospitals may be forced to ration services. Worse, the caps are coming just as the Clinton plan calls for insurers to invest in new networks of health-care providers. "If there are premium caps, nobody's going to win," warns Lawrence P. English, president of CIGNA Corp.'s Employee Benefits Div.

The White House, of course, insists its strategy is rock-solid. The Health & Human Services Dept. on Sept. 3 put the health plan through its 100th run on a computerized model of the medical economy, to calculate the impact of the plan's hundreds of proposals. But the Administration isn't publishing those data yet, leaving health economists to puzzle over the plan's contradictions. Clintonites claim, for example, that no employer will pay more than 8.5% of its payroll in health premiums—and that many will pay less. But Labor Dept. surveys show that big businesses already pay 9.9% of payroll—and the smallest firms that insure pay 13.5%. "Who's going to fill the gap?" asks William S. Custer, research director at the Employee Benefit Research Institute in Washington.

IN SHOCK. Business fears that it will be them. Clinton's promise to rein in health costs will help him garner support from big manufacturers, such as Ford Motor Co., which are burdened by generous benefits for retirees and an aging work force. But small employers—toting up the cost of mandated coverage—are going into shock. Stephen E. Elmont, owner of the upscale Boston restaurant Mirabelle, figures the cost of insuring his 30 employees will double even if small-business premiums are capped at 3.5% of payroll. And big companies, especially those with younger employees, worry that they no longer will benefit from their own cost-containment efforts. "We don't want health-care reform to interfere with our ability to manage our costs," says Ron A. Wyse, benefits director at Harris Corp.

Analysts attempting to sort out the plan's impact are stymied by its sheer reach. The Clinton blueprint proposes a basic reorganization of the U. S. health-care system. The goal: to bring cost con-

PHOTOGRAPH BY A. RAY/GAMMA LIAISON; CHART BY RAY VELA; BW

sciousness to a market that has long operated on the idea that patients should have any treatment that's available, no matter how costly.

Under the new scheme, workers and their families would no longer get coverage from health insurers picked by their employers. Instead, they would choose their own health plan—a traditional insurance package, a preferred-provider network, or a more restrictive health-maintenance organization—from a list of plans certified by a regional health alliance. While each would provide the same benefits, the prices would differ. Big companies, those with more than 5,000 employees, could run their own "corporate alliances."

Few outside experts think the Clintonites can slam the brakes on the health industry without political as well as economic whiplash

To cover the cost of insurance for all, every employer would be required to pay 80% of its workers' premiums. Since 85% of the 37 million uninsured Americans are workers or their families, Clintonites figure this mandate will solve the bulk of the nation's problem of uneven access to health care. Small firms and those with low-wage workers would get subsidies to cap their costs. The $70 billion tab for subsidies would be financed in two ways. A hike in "sin taxes" on cigarettes and perhaps alcohol would yield $16 billion annually. The Administration's claimed savings from Medicare and Medicaid would fill the gap.

Ideally, the new health plans would compete vigorously to offer high-quality care at the lowest possible premium. To ensure that consumers shop on price, the Clinton package would require them to pay a share of their health premiums—up to 20% if they choose an average-price plan. A family can save by picking a low-cost plan. That should encourage more Americans to enroll in HMOs and PPOs, which typically charge 10% to 20% less than traditional insurance, thanks to limits on expensive procedures.

For some private companies and state governments, this model for the health market—known as "managed competition"—has already helped slow medical inflation sharply. HMO enrollment among the 55,000 U.S. employees of Xerox Corp. leaped from 40% in 1990 to more than 60% after Xerox started passing the extra costs of traditional insurance on to workers. The result: While Xerox projected that its $250 million health bill would climb 12% this year, it's only rising at a 10% rate.

To Magaziner, that's proof enough that nationwide managed competition will rein in health spending. Just to be sure, the Administration proposes some regulatory insurance. As each state joins the system from 1995 to 1997, a new National Health Board in Washington will assign its regional alliances a target average premium. If insurers and HMOs in a region don't match that target, the alliance will have broad powers of persuasion—including the ability to lock laggard plans out.

Businesses applaud the goal—[illegible] worry about the Administratio[illegible] means. Politically appointed health [illegible] ances, says Xerox health-care mana[illegible] Helen Darling, "could be a nightmar[illegible] another Empire Blue Cross," the sc[illegible] dal-ridden New York insurer. E[illegible] Ford's director of insurance, Robert[illegible] Ozment, frets that his employer could[illegible] dwarfed by the "brute economic pow[illegible] of massive alliances. The danger: Th[illegible] mega-purchasing co-ops could negot[illegible] such discounts that the health pl[illegible] would have to shift costs onto compan[illegible] that manage their own benefits.

A BLITZ. These fears are sure to in[illegible] ence lawmakers worried about impos[illegible] an untested system on one-seventh[illegible] the U.S. economy. Business conce[illegible] compound the White House's polit[illegible] problems: a Congress splintered over [illegible] best way to overhaul the system an[illegible] public that harbors deep suspicion [illegible] both Clinton and his abiding faith in g[illegible] ernment. "Nobody will believe him w[illegible] he says that this won't cost you," s[illegible] Republican pollster Tony Fabrizio.

To help sell the plan to a wary pub[illegible] the Clintonites will unleash a sophisti[illegible] ed public-relations blitz. The pitch: "[illegible] health plan offers health security [illegible] better benefits at lower costs. But as [illegible] public begins to read the fine print[illegible] may be unwilling to make requi[illegible] trade-offs. The plan may tax the va[illegible] of employer-paid benefits—such as d[illegible] tal care—that go beyond the basic be[illegible] fits package. And voters may [illegible] spooked by the specter of reduced qu[illegible] ty of care if doctor choice is curta[illegible] and medical technology is rationed.

The White House must also ginge[illegible] navigate a fractious Congress. "I'd [illegible] lying if I didn't tell you I wasn't wor[illegible] about everyone," says a top Clin[illegible]

GOOD FOR BUSINESS? IT'S NOT THAT EASY...

The Clinton health-reform plan won't mean the same thing to any two companies: Some will have higher costs, some richer coverage, others greater risk. Workers, likewise, may either gain or lose benefits, and some will pay taxes on perks they get now for free. Here's how three representative businesses would fare:

BIG METALBENDERS INC.

- Old-line manufacturing company.
- 10,000 workers, average age 50, and many retirees.
- Unions have won rich health benefits.

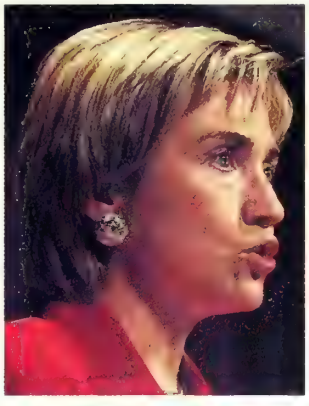
BIG WINNER
Clinton reforms eventu[illegible] cap expenses for prim[illegible] medical benefits at 8.[illegible] less of payroll, below [illegible] MetalBenders' current[illegible] Premiums won't be ba[illegible] age of workers. The fe[illegible] government may take[illegible] much of the expense [illegible] benefits.

CAUTION FLAGS After th[illegible] period, workers will b[illegible] on value of extra ben[illegible] such as dental covera[illegible] paid by Big MetalBen[illegible]

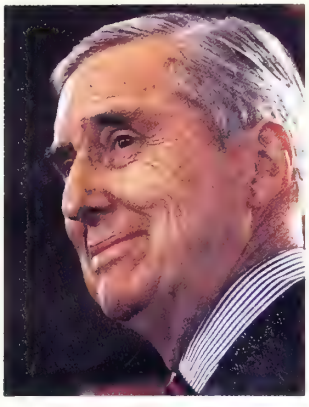
THE DOCTORS DIDN'T ALWAYS AGREE

Months of consultations have produced a cobbled-together scheme

URA TYSON She warned
t the package's mandates
d controls could damage a
w-growth economy



HILLARY CLINTON She pushed for more benefits—and even succeeded in adding some at the last minute



LLOYD BENTSEN The Treasury Secretary worried about burdening business—but his views did not prevail

IRA MAGAZINER He believes the plan can slash the double-digit inflation of costs in half in the first three years

egist. "I'm worried about the liber-
ho want a single-payer system, the
rate Democrats who don't want an
oyer mandate, and Republicans who
efuse to give us a victory."

ssage of the bill by next spring, as
Administration hopes, will require
ng a centrist alliance. The White
e needs to enlist a bloc of Republi-
otes to offset defections from liber-
mocrats. It hopes to enlist Minority
er Bob Dole of Kansas and GOP
rates led by Senator John H. Cha-
f Rhode Island. "I look forward to
g down with the White House to
a compromise," Chafee says.

ch a deal may well solve many of
ess's concerns with the Clinton pro-
. Moderate Democrats, led by Rep-
tatives Jim Cooper (Tenn.) and Mi-
A. Andrews (Tex.), will come out
their own version of managed competition a week before the President's speech. Their legislation would let more businesses run their own plans, would eschew premium caps, and wouldn't require all employers to finance coverage.

PUBLIC BATTLES. In the wake of the bloody budget battle, Congress also may require more realistic assumptions about health costs to guard against a future raid on the Treasury. That could mean a public replay of the internal battles over benefits and financing already waged within the Administration. When the senior White House economists got their first look at the Magaziner plan last spring, they balked. Treasury Secretary Lloyd Bentsen opposed cost controls and worried about burdening business with big bills, while Council of Economic Advisers Chair Laura D'Andrea Tyson warned that the package's mandates and controls would damage a slow-growth economy. But Hillary Clinton and Magaziner prevailed—and even added benefits at the last minute.

Whatever the disputes, only the most jaded in Washington doubt that some semblance of health-care reform will pass before the 1994 elections. "For the President, this is a must-do," says Democratic pollster Mark Mellman. "And on Capitol Hill, nobody wants to be the person that stops health-care reform."

The final legislation may well resemble Clinton's in its reliance on managed-care networks and purchasing alliances. But business's fears of regulation, price lids, and political control of the health system may strip the final product of many of the President's notions. The result could be an Rx for health care that business would find easier to swallow.

By Mike McNamee and Susan B. Garland in Washington, with bureau reports

:US COMPUTER CO.

wing computer maker.
workers, average
nd no retirees.
's use cafeteria plan
alth benefits. Com-
ls wellness center.

LOSER
Regional health alliance will charge Abacus premiums based on average medical costs in the region, so the company won't get a price break for its young, healthy workers. Workers will lose their tax breaks for cafeteria health benefits, and the company its financial incentive to maintain wellness programs.

BRIGHT SIDE Workers will have more choice of health plans.

ON-THE-BUTTON BOUTIQUE

- Family-owned dress shop.
- 10 employees, most of them middle-aged women.
- Owner buys family coverage for herself and a manager.

LOSER
The Clinton health plan will require On-the-Button's owner to pay premiums for all employees, even those now covered on their spouses' plans.

BRIGHT SIDE Owner's personal insurance policy will probably cost less when bought through the proposed regional health alliances. Some employees will receive coverage for the first time.

Commentary/by Mike McNamee

THREE FIBS THAT WON'T HELP HEALTH REFORM

When a doctor brandishing a hypodermic says soothingly, "Now this won't hurt a bit," an anxious child isn't fooled. Any kid who has had shots knows better.

Drs. Hillary and Bill Clinton suffer a similar credibility problem as they urge their health-care elixir onto a worried nation. And there's ample basis for doubt. Clinton's health plan employs at least three lies—ranging from a fib to a whopper—in claiming the government's medicine won't sting:

■ **"Everyone will have the right to choose his or her doctor."** The Administration knows nothing will outrage the 85% of Americans who already have insurance more than an order to change physicians. So in a sales pitch made to Congress in late August, it pledges to "preserve choice of doctors" and slams employers for doing less: "To cut costs, many employers are forcing their employees into managed-care plans—often forcing employees to leave their doctor."

But how does Clinton aim to curb costs? Through health maintenance organizations and provider groups that restrict patients to doctors and hospitals within their network. The plan lets you pick and choose among networks. But if Dad's internist and Mom's ob/gyn wind up in different plans, they will have to leave one—or pay a stiff price to keep both.

The Clintonites try to get around that by requiring each geographic region to offer one traditional insurance plan that allows patients to pick their own physicians. In the early years of reform, doctors undoubtedly will flock to these plans in hopes of keeping the unrestricted practices—and incomes—most now enjoy. But even with higher premiums, such plans may not last. To stay competitive with cost-cutting managed care, traditional insurers will have to adopt ever-tighter fee schedules. Facing the same limited income as their HMO brethren, and lacking a guaranteed stream of patients, doctors will abandon the free-choice plans.

While swearing fealty to choice, the Clintons also extoll the efficient, high-quality medicine delivered by managed care. Conveniently, they ignore the contradiction that the care comes at the expense of restricting patients' choice of doctors.

■ **"President Clinton doesn't want price-controls."** Headlines recently trumpeted the news: Clinton had rejected calls for fee schedules on medicine. Buried in the stories, though, was a troubling contradiction: The health plan still calls for "premium caps," or ceilings on health plans' annual fee increases. The caps, in effect, will limit what plans can pay doctors and hospitals. "It's a way to get the insurance companies to do the government's dirty work," says Ellen Goldstein, director of government relations at GE Medical Systems.

Clintonites won't admit it, but price controls are the centerpiece of their health plan. Unless the caps can cut medical inflation from 10% to less than 6% in just three years, the President's dream of health care for all with no taxes only for the few falls apart. If the White House is going to build its plan around controls, premium limits are probably the least harmful version to use. But claiming that caps are not price controls won't bolster White House credibility.

■ **"Our system depends on market competition."** Senior White House aides claim the premium caps won't matter. Why? "We think the markets are going to beat the caps by quite a bit," says a top health adviser.

But the Clinton plan gives markets little room to operate. In each region one huge buyer, the regional health alliance, will represent 70% of consumers, calculates the Employee Benefit Research Institute. Alliances will be quasi-governmental bureaucracies, politically appointed and empowered to force down insurance premiums and doctor's fees.

The result, many fear, could be more concentration—and less competition—among both buyers and sellers of health care. "It's helpful to have vigorous customers. It's not clear how vigorous alliances would be," says Dr. John M. Luden, corporate medical director of the Harvard Community Health Plan, a big HMO in Boston. Clinton's plan leaves only the 1,000 largest companies run their own benefit schemes. proposals from Republicans and conservative Democrats give smaller employers that option.

The Clinton Administration believes that the benefits of its reform program will far outlast the pain. Certainly, millions of Americans now enrolled in HMOs and other networks are satisfied with managed care. But the Clintonites may discover they have set back their cause when angry voters realize the reform plan has been mislabeled. In the end, white lies from the White House won't make the medicine any more palatable.

McNamee covers health policy from Washington.

THIS WON'T HURT A BIT

(AND OTHER MISCONCEPTIONS IN THE CLINTON HEALTH PLAN)

WHITE LIE #1 Everyone will be able

WHITE LIE #2 The plan excludes price controls

WHITE LIE #3 Market competition will keep prices down

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LETTER FROM HIBBING

ON THE IRON RANGE, A STONY REACTION

Citizens of Hibbing, Minn., are frankly wary of Clinton's plan

The hardy citizens of Hibbing, Minn., who survive by fighting bitter-cold winters while scratching a living out of open-pit mines on Minnesota's iron range, are tough critics. Even the town's most famous son, folksinger Bob Dylan, didn't get much respect in Hibbing. Way back before he became the voice of his generation, classmates at Hibbing High booed Dylan off the variety-show stage because they disliked his off-key imitation of Frankie Valli.

If President Clinton is ever going to sell his health-reform package, however, it's going to have to play in places like Hibbing. Like a hundred other Main Street burgs, Hibbing, population 18,046, is a town full of skeptics with down-to-earth sensibilities and a strong working-class ethic. And if the reaction in Hibbing is any indication, the President has one tough sales job ahead of him.

FRETFUL. In theory, Hibbing should be fertile ground for Clinton's proposal for government-backed universal health coverage. After all, Howard Street, with its hardware stores and union halls, diners and taverns, has seen the leanest of times during the mining industry's periodic shutdowns. But most locals are covered by their employers' private health plans—and most of them say the system works pretty well. They worry that the government's planned reforms could snarl things up. And they're scornful of claims that the government can cut costs while providing high-quality, universal health services.

Take Bob Holmbeck. He knows the health-care system needs fixing: His 28-year-old son doesn't carry any health coverage because the insurance is too expensive. That doesn't mean Clinton can count on the support of Holmbeck, an electrician who's currently striking the National Steel Corp. mine. Indeed, Holmbeck dismisses Clinton's plan as "a fraud." As he works his way through a stack of flapjacks at Mary's Cafe, he predicts that the government won't be successful in capping doctor's fees, and that universal coverage for all citizens will prove too costly. "There's a societal need," Holmbeck allows. "They've got the right idea, but they've got to take a different approach to it."

As in the rest of the nation, it is Hibbing's small businesses that are most fretful about Clinton's plans for a health-care overhaul. "I'm afraid it's going to cost me a ton of money more than it does now," says Leo G. Fraboni, who employs 16 people in his sausage-making company. "The plan's going to be about 10,000 pages long, so what are you going to hear about? Only what they want to tell you." And at electronic-parts maker Hibbing Electronics Corp., Chief Executive Bonnie Fena frets that the government will micromanage how she covers her 420 employees, even to the point of limiting which managed-care providers she can choose. "That's like telling me which kind of car I can drive, what kind of clothes I buy, and when I can buy a house," she says.

Hibbingites understand the need for reform: They're grappling themselves with how to hold down health-care costs. Miners at Hibbing Taconite Co. ended a five-week strike on Sept. 7 only after the company agreed to stop trying to impose a managed-care health plan on employees. In the Hibbing Public Library, 18 community leaders work on the town's application for a grant from the Robert Wood Johnson Foundation to help finance an elderly-care facility. And City Administrator John Fedo, exasperated that health-insurance costs were consuming 15% of his budget, just switched plans for the 245 people covered by the city.

CONFRONTATION. Talk of health reform really hits home for Dr. Jack Greene. The family practitioner is worried about becoming the health-care "gatekeeper" at the local Mesaba Medical Clinic. "I have to say, 'No, you can't have that test, you can't do that procedure, you don't meet this criteria,'" Greene frets. "There's going to be a confrontation feeling between me and my patients."

Hibbing also has its share of the people with the most at stake in health-care reform: those who can't afford health insurance. At the Hibbing Library, young mother Sandra Wehrenberg minds two of her children while her oldest son spends his first day in first grade at the local grammar school. The Wehrenberg family does without health insurance because Sandra's husband, who operates his own cleaning business, makes too much to qualify for Medicaid but too little to buy coverage. "We don't take them in to the doctor as often as we should," Wehrenberg says with a nod toward her one-year-old playing nearby.

Most people in Hibbing probably would agree that people like the Wehrenbergs shouldn't be left to fend for themselves. Hibbingites just aren't sure that Clinton's health-care approach is the way to go. If the President can't convince them, his reforms could end up suffering hometowner Bob Dylan's fate: getting booed right off the stage.

By David Greising in Hibbing, Minn.

IF CLINTON IS TO SELL HIS PACKAGE, IT HAS TO PLAY IN PLACES SUCH AS HIBBING. BUT LOCAL RESIDENTS WORRY THAT THE PLANNED REFORMS COULD SNARL THINGS UP

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AUSTERITY FACING A POSSIBLE JOB LOSS, PHONE OPERATOR WYANT AND HIS FAMILY CANCELED VACATION PLANS

PROSPERITY DIEHARD FOOTBALL FAN REIDER GAVE UP A PENN STATE HOME GAME TO WORK OVERTIME

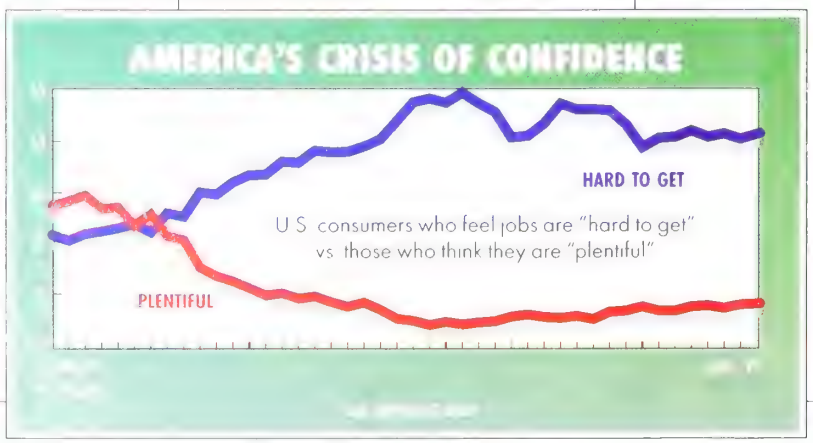
SITTING PRETTY OR RUNNING SCARED

While secure workers are enjoying a windfall, millions fear layoffs

Timothy S. Wyant didn't much enjoy his Labor Day weekend. Two weeks earlier, the AT&T long-distance operator learned that his office in Amherst, N. Y., will eventually be closed. Now, he's waiting to hear if the company will transfer him. If not, Wyant expects to collect unemployment checks for a long time. His terse take on the situation: "It sucks."

Wyant is not alone in his bitterness. On Sept. 3, just as thousands of vacationers were packing up the minivan for summer's last weekend, the Labor Dept. reported that nonfarm payrolls fell 39,000 in August, with continued widespread layoffs in the factory sector. Earlier in the week, the Conference Board's August survey of 5,000 consumers struck a similarly dark note: 41.1% of those surveyed considered jobs "hard to get," a higher percentage than during the 1990-91 recession (chart).

Curious, though: Even as companies were reporting job cuts in August, consumers themselves told the government that they had found 409,000 new jobs. Many joined the ranks of the self-employed, or were hired at a business too small to be included in Labor's payroll survey. But those extra jobs shaved the unemployment rate by a hair, to 6.7% from 6.8% in July. And despite the August dip, nonfarm companies have created 1.2 million new jobs so far this year, more than the one million added through all of last year. Economists expect job growth in 1993 to be the best since prerecession 1989.



The economic data tell two starkly ferent stories, reflecting a U. S. w force whose expectations are increas ly split by the economy's modest uneven performance. On one side, th are millions who aren't much concer about losing their jobs. On the other least as many either have been laid or are petrified of the possibility.

NOT ENOUGH GROWTH. For the f group, these are good times, inde "Workers that have the luxury of sec employment are making out like b dits" in today's economy, says Jeff Thredgold, chief economist at KeyC in Salt Lake City. "Minimal infla means their dollars buy more, they refinance or buy bigger homes, and t can bargain for products with m clout than they have ever had in postwar era."

But for thousands of others, threat of layoff hovers like the swor Damocles. Why the jitters? Frank Le a professor of urban economics at M sachusetts Institute of Technolo points out that "the economy is growing fast enough to provide jobs everyone who wants one." So, he gues, the U. S. is sti recession in terms job growth. Moreo highly publicized la notices—such as So western Bell Cor Sept. 7 announcem of 1,500 impending slips—don't help quell the anxie workers feel.

As a result, some sumers are taking fensive action. With prospect of unemp

t looming, AT&T operator Wyant al-
ly has limited his spending. He can-
d plans to buy a new truck and must
ı tell his two daughters that a hoped-
ıip to Disney World next year won't
ɔen. He had also planned to build an
tion to make room for a third child.
, he doubts he'll build the addition—
ry to have another baby.

RMENT DAYS. Rachel Grossman is
ing back, too. The 28-year-old Uni-
ity of Denver nursing student
ıds Sunday mornings scouring the
t ads looking for a part-time job. In
meantime, she eschews vacations,
clothes in second-hand shops, and
to movie matinees because they're
per than the evening shows. "Post-
ng things is a way of life," she says.
ɔnsumers with steady paychecks,
gh, haven't postponed enjoying the
lfall of a weak economy. Fixed 30-
mortgage rates below 7% have
ıed up a flood of refinancings for
eowners who can meet the income requirements. And cheap vacations, cars, and computers can be had by consumers with the cash or credit.

Moreover, because companies aren't hiring, hourly employees are picking up extra money by working overtime. The average workweek in the nonfarm sector increased by 12 minutes last month, to 34.7 hours, while overtime in the factory sector extended to 4.2 hours, equaling its record high in May. With more hours, weekly pay for all nonfarm workers jumped 1% in August, to $377.19.

The use of overtime in place of hiring is especially widespread on the factory floor, where almost 200,000 jobs have been lost this year even though output has risen at a 3% annual rate. Darrell Reider, a supervisor at battery maker East Penn Manufacturing Inc. in Lyon Station, Penn., decided to miss a Penn State home football game for the first time in two years in order to work overtime during the Labor Day weekend. Reider figures he made about $125 working the 5-hour shift while his alma mater trounced Minnesota, 38-20. "I love Penn State," Reider says, "but the decision for me was, grab the money."

The confidence split probably isn't irreparable. Economist Thredgold, for one, predicts improvement by next year, as layoffs at big-name companies ease and steady payroll increases return. Until then, though, angst-ridden workers may delay big-ticket purchases and keep domestic demand in check. That could limit economic growth in the second half to its current modest rate of 3% a year.

Even some workers who are winners in this slack hiring environment aren't gobbling up the spoils as hungrily as before. Reider, for one, can't bear to miss two Penn State games in a row. He'll forgo overtime to catch the Sept. 11 clash with Southern California. Some things are more important than money.

By Kathleen Madigan in New York, with Keith L. Alexander in Pittsburgh, Geoffrey Smith in Boston, and bureau reports

ARKET

HY THIS BOND RALLY IST WON'T QUIT

w growth, low inflation: Rates could drop even further

redicting interest rates is always a tricky game, but rarely have forecasters been caught off 'd as badly as by this summer's l rally. After yields on 30-year Trea-s hit 7% last spring, most analysts ght the party was over. "Frankly, I ght the long bond was headed back %," admits H. Erich Heineman, chief omist at the investment banking of Ladenburg, Thalmann & Co. "I r imagined it would crack 6%."

ıt during the first week of Septem-bonds didn't even pause for breath ates fell to 5.86% on Sept. 8. , bond-market watchers are amining their data and ask-hemselves: How low can they The answer, many say, is the bond rally isn't over yet. g-term rates could fall to 5.5% ess, and if economic growth s slow for the rest of 1993, long bond might even drop w 5% next year.

R PRONE. Such predictions fueling a headlong rush into narkets. "Speculative fever is ing a lot of money to pour long-term bonds," ob-es John E. Silvia, chief omist at Chicago's Kemper ncial Services Inc. "All it will is another cut in rates by the Bundesbank or another weak employment report to keep the rally going."

Of course, the now-chastened forecasters could be wrong again. A sudden spurt of growth could quickly send rates up. But the economic trends point to continuing downward pressure on yields. Growth remains sluggish throughout the industrial world, U. S. inflation has slowed to 3% or less, and the federal budget deficit is shrinking.

While 30-year Treasury bonds have seen the biggest decline in rates, the bond rally has spread to medium- to long-term issues as well. Yields on 10-year Treasuries—which play a key role in setting mortgage rates—have fallen from 6.9% last November to 5.2% on Sept. 8, the lowest rate in 26 years. Since late May, yields on the 10-year note have fallen nearly a full percentage point, only slightly less than the drop in the 30-year rate over the same period.

ANEMIC GROWTH. The surprising slowdown in U. S. growth is the main reason rates have plummeted. The U. S. economy grew at an anemic rate of 1.8% in the second quarter, short of the 2% to 3% range expected by forecasters. And there's little strength in the Japanese and European economies, either. Indeed, Germany's 10-year bond rates have dropped 60 basis points since June alone, providing strong encouragement for the U. S. bond rally.

Inflation, too, is proving to be less of a menace than many feared. After running at a 4% clip during the first four months of 1993, U. S. inflation has slowed to less than 1% since May. Worries of a new inflationary surge were eased by passage of President Clinton's deficit-reduction plan, and by a Sept. 1 Administration forecast showing smaller-than-expected future deficits.

As many analysts now see it, long rates almost certainly will keep falling if the economy musters less than the 3% growth rate expected for the second half and inflation stays below 3%. David Wyss, research director for DRI/McGraw-Hill, thinks current economic conditions justify a 30-year bond rate somewhere between 5.75% and 5.5%. He argues that the historic gap

between inflation and long rates has been around two percentage points. That suggests that if the economy stays weak and inflation slows further, "you could see a 4.5% rate for the 10-year and 5% for the long bond," says Wyss.

Another factor pushing down long rates: the Treasury Dept.'s decision to trim borrowing costs by shortening the maturity of its debt. The Treasury has cut back its sales of 30-year bonds from $36 billion a year to $22 billion, creating demand for 30-year bonds that outstrips supply, driving rates down. Despite falling yields, many pension plans and other investors see no other way to lock in decent returns at a time when bank CDs pay less than 3%. "We're seeing a buyers' panic," says Donald H. Straszheim, Merrill Lynch & Co.'s chief economist. "People are willing to pay a scarcity premium."

Buyer panics, of course, often reverse direction. If rates begin to rise, bond buyers will face a rude shock. Given the experts' recent track record as crystal ball gazers, the risk may be bigger than many investors realize. But for now it might be one worth taking.

By Owen Ullmann in Washington

PEOPLE

IS PAT CHOATE PLAYING FAST AND LOOSE WITH NAFTA?

His new book, written with Perot, draws jeers from fellow economists

Sometimes economists take flying leaps—and fall flat on their faces. There was Arthur Laffer and his famous curve-on-a-napkin. He persuaded the Reagan Administration that tax cuts would balloon receipts and lower the budget deficit. Instead, his theory helped swell Washington's red ink to record levels. Or consider Raveendra N. Batra, who topped the best-seller lists in 1987 with a book entitled *The Great Depression of 1990*. Three years later, the economy was only wheezing, but Batra's reputation was in real trouble.

Now comes Pat Choate, whose collaborative effort with Ross Perot, *Save Your Job, Save Our Nation*, has propelled him into bookstores everywhere and onto the *Larry King Live* television show for a Sept. 7 interview alongside Perot. "My analysis is straightforward," Choate tells BUSINESS WEEK. "The Mexicans are pursuing a low-wage strategy for pulling U. S. jobs south of the border."

It's compelling talk—the sort that President Clinton can't ignore as he pursues passage of the North American Free Trade Agreement. But Choate's broadside against NAFTA isn't doing much for his reputation among economists.

Some of Choate's peers charge that his charts, graphs, and economic analysis take startling liberties with the facts. "Having done serious work in the past, he had to know what he was doing here was totally one-sided, just a polemic," fumes Gary C. Hufbauer of the Institute for International Economics, who backs NAFTA. Says economist Jagdish Bhagwati of Columbia University, who is more ambivalent about the trade pact: "I think he's gone around the bend."

Call it a flair for drama. Choate, 52, long has enjoyed a reputation as a feisty but brilliant analyst with a talent for transforming dense issues into hot national topics. In 1990, Choate was dismissed as vice-president for policy analysis at TRW Inc., shortly before the release of *Agents of Influence*, his stinging critique of Americans who leave top government jobs to lobby for Japanese companies. The book was a big seller. But Choate claims TRW dumped him under pressure from Japanese clients unhappy with his call for U. S. economic patriotism—a charge TRW denies.

Agents of Influence caused a stir in Washington, but no one questioned Choate's facts. Not so for his NAFTA book. He asserts, for instance, that the pact places 5.9 million U. S. jobs "at risk" of being moved to Mexico by U. S. companies seeking lower wage co... Hufbauer says Choate merely identifi... from Census Bureau data U. S. indu... tries where wages account for m... than 20% of the value of output, a... then declared these industries to be... "at risk."

UNAPOLOGETIC. That list includes hi... skill industries such as aerospace a... telecommunications, sectors where e... the most pessimistic studies predict t... NAFTA will actually produce more U... jobs. Says Thea Lee of the labor-bac... Economic Policy Institute, a NAFTA ... "We project 500,000 jobs will be lost—... far fewer than in Choat... estimate.

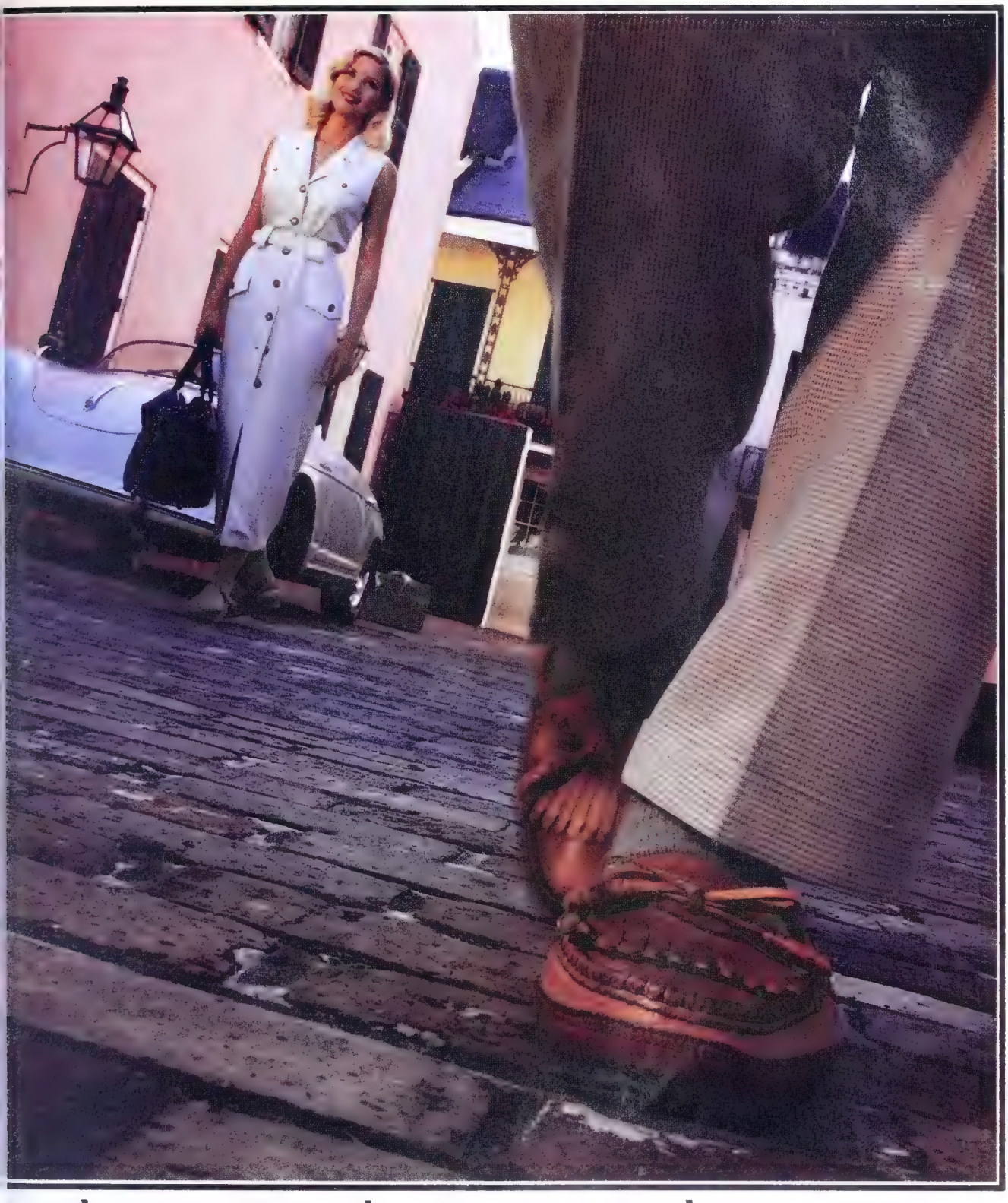
Choate is unapologetic. "I don't care what their e... nomic models predict," he says. "It will happen." ... head of economic devel... ment for the low-wage sta... of Oklahoma and Tenness... Choate claims that he ru... tinely lured companies fr... states such as Massachuse... and Michigan, using simi... strategies.

The debate doesn't end the... Choate's book cites testimo... from former Labor Secret... Lynn M. Martin and a rep... from the Congressional Bud... Office that NAFTA will thr... more than 150,000 people out... jobs. Trouble is, both Martin a... the CBO contended that the... losses would be more than off... by job gains from expand... trade—a point Choate con... niently ignores. He argues t... job losses from NAFTA will oc... soon after passage, while ... new jobs will take longer to c... ate. "That's one or two generati... of lives wrecked in the meantime," e... contends.

His tactics may backfire: The bo... has energized NAFTA supporters d... raged at his use of data. But Choa... now a true Perotnista, may not care t... they're upset—or even that he m... share Laffer's fate within the prof... sion. As Laffer discovered, there's a... ways the lecture circuit.

By Douglas Harbrecht in Washing...

CRITICS SAY CHOATE WILDLY EXAGGERATES THE JOB THREAT



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HEALTH RISKS

PORK, SWEAT, AND TEARS

A new study is scaring Americans about the fat in Chinese food

Tony and Carrie Chang usually draw a big holiday crowd at their Imperial Hunan Chinese restaurant in Manhattan. But business at the family-owned eaterie was downright lousy over the Labor Day weekend. The reason, the Changs discovered by querying previously loyal customers: a heavily publicized study by the Center for Science in the Public Interest, a research group in Washington, D. C., concluding that Chinese food is often just as fatty, salt-laden, and high in calories as a Big Mac with a large order of fries.

The question now worrying Chinese food purveyors: Is the furor over the new study a tempest in a teapot, or has Chinese food earned a permanent bad rap? The study dealt only with take-out food, but sales of everything from ConAgra Inc.'s La Choy and Chun King brands to General Mills Inc.'s China Coast restaurant chain may be affected.

SERIOUS EATERS. Americans take such dietary news seriously. Beef consumption, for example, dropped by 4.5% during the 1980s as the public became more aware of its health risks. On the plus side, the wine industry credits a 28% increase in red-wine sales last year to a 1991 *60 Minutes* episode suggesting that red wine helps prevent heart disease.

Just how bad can Chinese food be? "The results shocked even us," says nutritionist Jayne Hurley, who headed the research team. For instance, the study found that a typical take-out serving of Kung Pao Chicken, a spicy diced-chicken dish, has about the same fat content (76 grams) as four McDonald's Quarter Pounders (table). Orange Crispy Beef, another popular take-out dish, has more calories than four orders of McDonald's french fries.

That was big news to many Chinese-food eaters. A Food Marketing Institute survey—taken before the Science in the Public Interest study—showed that some 52% of Americans considered Chinese food healthier than fast food.

Nonetheless, corporate Chinese-food makers aren't nervous yet. ConAgra says it isn't planning to drop or reconfigure any of the fattier items in its frozen Chinese lineup. "Let's face it, an egg roll that isn't fattening wouldn't be an e roll," says a spokeswoman. And Gene Mills, which operates eight China Co restaurants, says that its Chinese foo good for you. "The study is very r leading to the public," says Te Cheng, China Coast's director of me planning, citing unknowns such as cuts of chicken examined by the searchers. "It absolutely doesn't mat to us." China Coast is sticking w plans to open 30 new outlets by n May.

By then, figures Martin Yan, a c and Chinese cookbook author wh *Yan Can Cook* show runs on PBS s tions around the world, the scare n have passed. Americans, Yan predic will simply "learn how to eat Chin food properly." That, he says, means dering the healthier dishes—and eat them the right way.

"CHOLESTEROL BOMB." Most America it turns out, eat Chinese food all wro The dishes most people like best, acc ing to the study, are the least heal ones: moo shoo pork, sweet-and-s dishes, and beef with broccoli. "Look older Chinese," says Carrie Cha "They're not fat." Native Chinese a Chinese-Americans eat four times much rice with their meals and tend to eat much of the rich sauce that con with beef, chicken, and vegetable dish The typical American diner often dum an entire entrée—sauce and all—on of a mound of rice. "The rice soaks the sauce, and you've got yourself a c lesterol bomb," says researcher Hurl

What's a healthy eater to do? Hur suggests opting for steamed dishes. average dinner-siz portion of shrimp a garlic sauce is a go choice, with 945 ca ries and 27 grams fat. The same port of stir-fried vege bles, with 746 calor and 19 grams of f is another good tion. If you must sweet-and-sour po avoid too much sau

The Changs predi the bad public about Chinese fo will blow over. Me while, another set restaurateurs h better start worryi The Center for S ence says its ne study will focus Italian food. Piz eaters, repent.

By Julie Tilsner New York

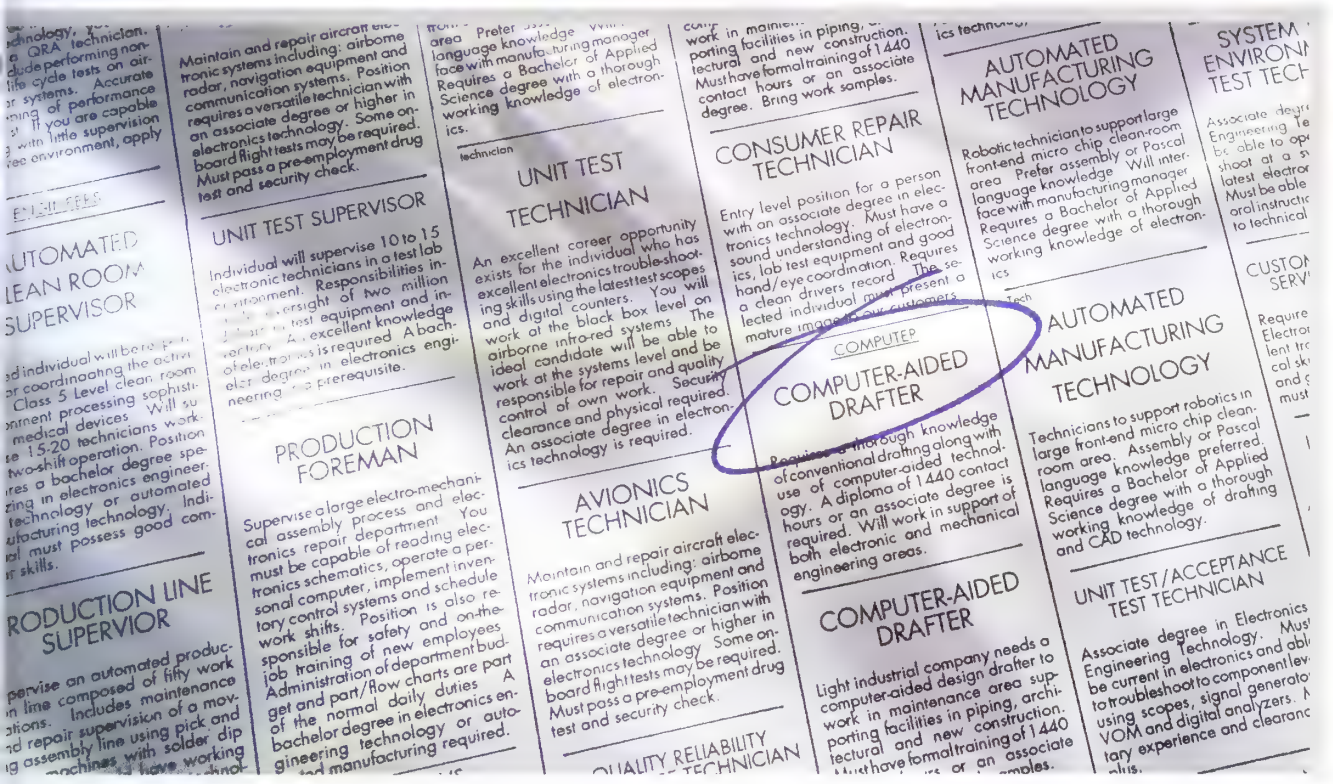
BEWARE OF COLUMN B

A Big Mac and fries have 900 calories and 68 grams of fat. Here's how a carton of Chinese food compares

THE HEALTHY:	CALORIES	GRAMS OF FAT
STIR-FRIED VEGGIES	746	19
HUNAN TOFU	907	28
SZECHUAN SHRIMP	927	19
SHRIMP & GARLIC SAUCE	945	27
CHICKEN CHOW MEIN	1,005	32
THE NOT-SO-HEALTHY:		
BEEF WITH BROCCOLI	1,175	46
MOO SHU PORK	1,228	64
HOUSE FRIED RICE	1,484	50
SWEET AND SOUR PORK	1,613	71
KUNG PAO CHICKEN	1,620	76

DATA: CENTER FOR SCIENCE IN THE PUBLIC INTEREST

ITT Tech Students Pass Their Biggest Test After Graduation.



inding a job with a future, one that is related to their edu-ıtion, that's the ultimate test college graduates face today. A ɔod education isn't enough. Students need both the theory ıd the practical application of that theory which are necessary an increasingly specialized job market.

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EDITED BY KEITH H. HAMMONDS

CHANGING, BUT NOT HAPPY ABOUT IT

Thanks to corporate downsizing, global competition and pressure from women and minorities for more influence in the workplace, American executives see their environment changing faster. But they aren't sure their companies can keep up. Below, the number of 400 executives surveyed in July who said:

▶ Change in their companies is rapid or extremely rapid	79%
▶ They have a conservative or reluctant approach to change	62%
▶ The pace of change will accelerate	61%
▶ Their companies are very capable of coping with change	47%
▶ Their companies have formal structures to handle change	44%
▶ Large corporations are best equipped to manage change	32%
▶ They could not name a company good at managing change	25%
▶ General Electric is the best company at managing change	17%*

*MOST NAMED COMPANY

DATA: PROUDFOOT CHANGE MANAGEMENT

DUPONT TAKES A HIT IN THE BENLATE BATTLE

▶ In the first jury verdict on Benlate, DuPont's once-popular fungicide, 23 Arkansas farmers won a $10.65 million judgment. DuPont says the Sept. 3 decision may have little impact on nearly 500 other suits by farmers who claim Benlate caused crop damage because the Arkansas case involved tainted Benlate, which was recalled in 1989. But Arkansas lawyers say the judgment undercuts DuPont's credibility, and that they established during the trial that even pure Benlate can break down into harmful chemicals. DuPont plans to appeal.

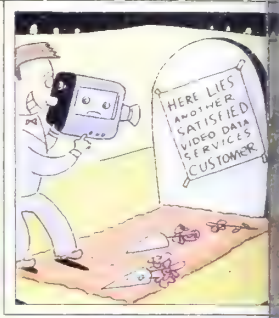
BIG BLUE'S PRICEY NEW THINKPADS

▶ Love PC bells and whistles? IBM has a notebook computer for you. On Sept. 8, Big Blue rolled out new models of its popular ThinkPad line, loaded with expensive features. There's the 750C, with a built-in speaker, microphone, and audio and graphics chips. Attach it to a portable docking station with more speakers and a CD-ROM drive, and you get full-motion video and stereo sound. With the 750P, a keyboard notebook that converts to a pen tablet, IBM is pushing handwriting recognition. Brace yourself for sticker shock: The 750P starts at $3,749; the 750C at $4,699.

RUPERT MURDOCH PREPARES TO LOG ON

▶ Old-time media meets the information superhighway: Rupert Murdoch's global News Corp. empire will buy Delphi Internet Services. It's a small deal by Murdoch standards (page 50) but a significant one: With 100,000 subscribers, Cambridge (Mass.)-based Delphi is the fifth-largest on-line information network serving home computers. News Corp. plans to use the network to distribute electronic versions of its print properties, such as *TV Guide* and bestsellers published by HarperCollins. In addition, the network may play host to interactive discussion groups focusing on popular Fox Broadcasting TV shows.

MAYBE A NICE FRAMED PORTRAIT, INSTEAD



If only we got more letters like this. Video Data Services, a franchisor in Pittsford, N. Y., recently wrote to promote the "quirky occurrences" that have plagued its independent videographers. To wit: A Cincinnati woman asks Video Data to transfer some old home movies of her husband onto video for their anniversary, then abruptly opts "to shoot her husband instead . . . with a gun!" While in jail, the wife recommends Vi Data to a visiting friend, who transfers a film to tape as a for her mother. Mom watches the flick, takes "her last gasp breath and [dies] of a heart attack."

Um, nice pitch. But maybe not such great marketing. V anyone now dare transfer a movie to video? "People get v emotional" when they see the results, says Video Data Pr dent Stuart Dizak. The heart attack? "The ultimate satisf customer." But not one who will tell her friends.

DEC'S OPENING ROUNDS IN A RISC PRICE WAR

▶ PC chipmaker Intel has faced competition from RISC (reduced-instruction set computing) microprocessors since 1989, when computer makers began positioning RISC chips as rivals to Intel processors. PC makers mostly stuck with Intel. Now, RISC chipmakers will try to compete on price. On Sept. 10, Digital Equ ment is expected to sl prices on its Alpha RISC ch and release new, even chea versions. By pricing its PC v sion of the Alpha chip so 50% below Intel's cheap Pentium processor, DEC ho PC makers will finally s from Intel. So far, no take

A CRACK IN THE DOOR TO VIETNAM TRADE?

▶ President Clinton is pl ning to only partially lift U. S. trade embargo agai Vietnam, Administrat sources say. Clinton's July decision to end U. S. opp tion to a French-Japanese fort to clear Hanoi's $140 r lion in arrears with International Monetary Fu triggered talk that the U would lift the ban by Sept. That's the deadline for C ton to renew sanctions. Mi ful of opposition from vet ans' groups and families missing servicemen, Clinton now expected to ease the e bargo only enough to per U. S. companies to join in pr ects funded by the Wo Bank and similar institutio U. S. consumer-product m ers, telecommunications co panies, and others will rem shut out of Vietnam.

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EDITED BY STEPHEN H. WILDSTROM

HE NEW KIDS IN CONGRESS /HO COULD BLOCK NAFTA

the North American Free Trade Agreement is to be approved, it needs the backing of representatives such as Dan Miller (R-Fla.). The first-termer from Bradenton an executive for 19 years and, as an avowed free trader, ks the pact offers "a lot of pluses." Yet Miller says he's nly on the fence" as far as NAFTA is concerned. A key rea- why: During the August recess, he sat through 10 town tings at which only a handful of constituents endorsed the .. But dozens objected, citing potential job losses and oth- amage to the U. S. economy. "I find very little support for TA and strong opposition," he says. "It's zing how passionate these people are." /ith the majority of House Democrats osed to NAFTA, any weakening of Re- lican support puts the pact in jeopardy. veterans remain overwhelmingly sup- ive. But enough of the party's 48 House hmen are balking, which imperils the ership's goal of delivering 120 of the 175 se Republicans. An informal poll of GOP hmen by Representative John L. Mica la.) found that 11 oppose the pact or against it, 14 are undecided, and 19 of- some degree of support.

MILLER: "FIRMLY ON THE FENCE"

ANGERED VEGGIES? Why the waffling? ie GOP newcomers represent districts could suffer economically if the treaty ltified. "It's jobs," says Mica, "meat and toes." Or, to be more precise, tomatoes and sweet corn. 'd be devastated because our folks could not compete i Mexican farmers," he says.

hen there's Ross Perot, who has made defeat of NAFTA a onal crusade. Many first-term Republicans were elected by ow margins in districts where the Texas billionaire got e than 20% of the 1992 Presidential vote. Some credit Per- sta support for their victories. Now, they're feeling the of the anti-NAFTA brushfire fanned by Perot and his ed We Stand America organization. Miller was particularly impressed when a Perot follower at a citizens' forum in Englewood, Fla., buttressed his attack by reading from the 1,100-page agreement. "These are conservative, mostly Republican businesspeople," Miller says. "There is no way to tell them they won't be hurt" by NAFTA.

"SENSIBLE." The GOP freshmen's growing ambivalence has NAFTA supporters nervous. "They are a very important bloc of votes," says House Republican Conference Chairman Richard K. Armey (Tex.). "We are going to work with them to put this orchestrated, vocal resistance into focus." Worried Clintonites are counting on the GOP leadership to bring wayward freshmen back into line. But, as Armey notes: "It's sensible for them to be cautious. If you're talking about a close congressional race, [Perot backers] could conceivably swing the balance."

Perot's troops are doing their best to keep the wavering Republicans as uncomfortable as possible. They have distributed copies of Perot's latest book, *Save Your Job, Save Our Nation*, an attack on NAFTA co-authored with economist Pat Choate (page 40), to every congressional office. And Perotnistas have shown up in force at lawmakers' issues forums from Idaho to Florida. "The freshmen listen very closely to their constituents," says Perot spokeswoman Sharon Holman, "and the message they're getting is clearly against NAFTA."

Many of the freshmen say they are waiting to hear from supporters of the treaty before finally committing themselves. But, too often, all they hear is silence. "Does the Chamber of Commerce support this?" asks Miller. If NAFTA's business backers wait much longer to mount an effective counterattack, the solid GOP support that NAFTA needs in the House may be gone—and with it any prospect for approval of the market-opening agreement.

By Richard S. Dunham

ITAL WRAPUP

NDIDATES

ack F. Kemp remains most Republi- can conservatives' first choice for 1996 Presidential nomination. But ny of the former Housing & Urban velopment Secretary's backers have en frustrated as Kemp has taken a ckseat as a GOP spokesman to a po- itial rival in 1996, Senate Minority ader Bob Dole (R-Kan.). Now Kemp getting ready to raise his visibility. is fall, he will set up a new political- ion committee that will raise funds help him campaign for Republican use and Senate candidates next ar. In the process, Kemp will pile IOUs that he can collect if he runs for the White House. So far, Kemp says, 100 candidates have asked him to appear at fund-raisers. But the former Representative from New York State is keeping mum about his long-term plans. "I won't talk about '96 until after '94," he says.

REGULATORS

The White House appears to be stepping up its languid pace in filling vacancies at key financial regulatory agencies. Two women have emerged as the leading contenders for a spot on the Securities & Exchange Commission. Martha L. Cochran, the top securities counsel for the Senate Banking Committee, has the backing of Senator Christopher J. Dodd (D-Conn.), a close friend of SEC Chairman Arthur Levitt Jr. But she has competition from University of Maryland law professor Ellyn L. Brown, a former Maryland securities commissioner. Meanwhile, sitting SEC Commissioner Mary L. Schapiro has been approached by the White House about a new post as chair of the Commodity Futures Trading Commission. The appointment of Schapiro, an SEC veteran and a former general counsel of the Futures Industry Assn., could lead to greater cooperation between the SEC, which regulates stock and bond markets, and the CFTC, which oversees options and futures trading.

THE ROARING SUBMINIS

A new breed of tiny cars defies Europe's slump

When top brass from Sweden's Volvo visited executives of France's Renault before their Sept. 6 merger, one of the most popular sessions of the day featured test drives of Renault models. The French looked on in surprise as Volvo executives scampered past fancy sedans, such as the Safrane, and headed straight for Renault's bottom-of-the-line Twingo minicar. "There was a mad rush to get to the Twingo," recalls one participant.

Now Renault and other auto makers are hoping the rush to small cars will be the trend that helps end their worst slump since World War II. Since its March launch, the $9,700 Twingo has carved out a 6.2% market share in France. Italy's Fiat launched the Punto, a new small model with a price tag between $9,000 and $15,000, at the Frankfurt Motor Show. The show also featured plenty of prototypes. Volkswagen has its new small Chico. Ford showed a concept car with a two-stroke engine. GM-Opel has plans for an "O-car" that would be smaller than its subcompact Corsa model. Even luxury carmaker Mercedes-Benz unveiled a prototype of a small car currently dubbed Vision A 93, while archrival BMW showed the second-generation design of its small E1 electric model. The BMW and Mercedes minis would sell at around $18,000.

MICROSCOPIC. The allure of these mighty midgets is apparent. Europeans looking for fuel efficiency and easy maneuvering on small city streets already buy about 4 million cars of subcompact size and below—about a third of Western Europe's market. And though most models have never been quite this microscopic, European carmakers have a tradition of building good-quality small cars, such as the Renault 5. Fears about pollution reinforce the trend.

As a result, sales of the low-pric submini, called A-class cars locally, a resisting Europe's sharp economic dov turn far better than bigger models. L don-based consultants DRI/McGraw-H forecast submini sales will fall 2.7% t year, a fraction of the 16% drop expect for European auto markets as a whc "There's a segment developing bel the [subcompacts]," says Ford-Wer board member Rainer Strang. "We c feel it very clearly." Marketers have o er motives for pushing this new cate ry: The cheapest minis could also come best-selling starter cars in Easte Europe. And in the West, they co reinforce brand loyalty to Europe nameplates and keep market share o of the hands of the Japanese.

To build this new market, the mir designers are providing car buyers w a surprising amount of space as well s features that constitute astounding v ue for the price. The Twingo, for exa ple, has a tilted transverse engine th occupies minuscule space, giving t passenger compartment a lot of roo Another attraction: The Twingo's ba seat slides forward and backward, l conventional front seats, creating pler of leg room. And the Twingo's designe went wild with bright, contrasting col in dashboard controls, upholstery, a exterior. The result is a car that may n roar by at 93 miles per hour on t highway, but that still offers plenty f

appeal—and can travel 62 miles on
ıt 2 gallons of gas.
ut manufacturers also realize they
can't ride smoothly to recovery in a
t of itsy-bitsy autos with perky
es. For starters, design and tooling
a new model can quickly top $2 bil-
in costs, a big outlay when auto
its are under such pressure. Besides,
gins on small cars traditionally are
ıarrow as the back seat of a VW
tle. "It is very difficult to make mon-
ith A-class cars," says Karl Ludvig-
president of London-based consul-
Ludvigsen Associates. That's why
ers such as General Motors, Ford,
cedes, and BMW have yet to give
projects the final go-ahead for full
luction.

BOOST. There are ways to turn a
it in this category. Both GM and VW
trying to develop superlean produc-
processes that will squeeze out
s. Fiat has moved production of its
uecento to Poland. A third of Re-
t's Twingo capacity is in Spain, a
r-cost manufacturing site compared
France. Renault also has a no-frills
keting strategy for the Twingo,
h features just one engine size and
rs only two options: air-conditioning
a sun roof. That relative austerity
investments down to $654 million
trimmed 15% off production costs.
ıe Twingo's success has unveiled an-
r customer trend with big implica-
s. "It's not just impecunious young
le buying it," says DRI/McGraw-Hill
f analyst John Lawson. "There has
a tremendous take-up by well-
ed, middle-aged people who want
ething with good environmental cre-
ials." That seemed to spell opportu-
for Mercedes-Benz' new chief exec-
e, Helmut Werner. Within four
ths of moving into the top job, he
eled out the small-but-pricey Vision
3 prototype, with air-conditioning,
skid brakes, electric seat adjust-
t, and air bags as standard items. A
o-diesel engine boasts fuel consump-
of about 1 gallon per 62 miles.
erner already is talking about pro-
ng 200,000 Vision A 93s annually in
years' time. Such a move would
cally change Mercedes' culture,
ting present total output by a third
making the company a volume pro-
r over at least part of its range.
its could be elusive: Mercedes is
ting to close a 30% cost gap with the
ıese.
ut the German auto maker may have
hoice. Says Werner: "The market at
top of the high series is getting slim-
." In Europe's era of diminishing ex-
ations, that realization is driving
makers to think small.

y John Templeman in Frankfurt, with
ıau reports

JAPAN'S CARMAKERS GO IN FOR A PIT STOP

The opening day of the Frankfurt Motor Show was a subdued affair for the Japanese. European Community negotiators had just persuaded the Japanese to slash their auto exports to Europe by an additional 9.1% this year, to 980,000 vehicles. The cut came on top of a 9.4% drop the Japanese had already agreed to in April. "Our necks are being squeezed tighter," says a glum-faced Takeomi Miyoshi, executive vice-president at Honda Motor Europe. "This is a fragile and dangerous time."

Like their European rivals, the Japanese are definitely feeling the effects of a disastrous auto market. Total sales in the EC should drop 15.9% this year, to 11.73 million cars. And the pressure from Europe's carmakers for tighter restrictions on Japanese imports is bound to continue. On Sept. 8, Peugeot Chief Executive Jacques Calvet attacked EC negotiators for not winning big enough concessions in their latest talks with the Japanese, saying the accord should be renegotiated or Japanese market share frozen.

A NISSAN PLANT IN BRITAIN: CUTTING PRODUCTION AND AGREEING TO SMALLER QUOTAS MAY BE SMART IN EUROPE'S DOWN MARKET

Even the Japanese plants in Europe, which are exempt from the restrictions, are operating below forecasts. Nissan, the biggest Japanese player with a 3.7% market share, won't make its targeted 270,000 units this year at Sunderland, its British facility, which has a capacity of 300,000. At its new Burnaston plant, also in Britain, Toyota says it probably won't meet targeted production of 100,000 units of the midsize Carina E in 1994. More plant construction is unlikely. "Now is not the time to invest in new [European] factories," says Nissan Motor Co. President Yoshifumi Tsuji. "People tell me the decline is bottoming out, but I'm not convinced." So the Japanese are turning to growth markets elsewhere. "Right now the focus is on Asia," says Toyota Motor Europe Chairman Eiichi Kumabe.

TAILORED DESIGN. Despite the problems, plenty of Europeans still want Japanese cars. This year, the Japanese could win 12.8% of the market, up from 11.3% in 1992. That's creeping beyond the 10% share the Japanese feel is now politically acceptable in Europe. The Japanese are also boosting imports from Japanese plants in other countries that are not included in the EC restrictions. Next year, Honda will ship 10,000 Civic Coupes made in Ohio to Europe.

And even in the middle of Europe's car slump, the Japanese plan to attract more European buyers by broadening the model mix. Most Japanese sales in Europe are concentrated now in the midsize range. Yet Honda, to cite one example, may develop a small car for Europe. And on the other end, Mazda just introduced its luxury Xedos 9, with a 2.5-liter engine that makes it more powerful than the 626 sedan's 2-liter engine.

The Japanese are sharpening their understanding of Europeans' differing tastes by setting up local design studios, mostly in Germany. Toyota has figured out that red cars sell well in Britain, but Belgian motorists prefer other colors. Like Nissan's Primera, designed with Europe in mind, Honda's British-built Accord is narrower and sportier than the latest American Accord. The Japanese are beefing up their sales networks, including those in Poland, Hungary, and Russia.

This go-slow approach could put the Japanese in an even better position. "It's a philosophy of moderation," says Toyota's Kumabe. No one is mistaking this moderation for surrender.

By Karen Lowry Miller in Frankfurt

ANDREW MOORE KATZ SABA

ASIA

MURDOCH MAY HITCH A PRIZE TO HIS STAR TV

His bid for a leading station intensifies the Asian media scramble

Rupert Murdoch has had a busy summer. After being blocked in an attempt last July to buy a 22% share of Hong Kong's biggest TV station, Television Broadcasts Ltd. (TVB), his News Corp. turned around that same month and bought Asia's leading satellite-TV network, Star TV. Now, if regulators don't stop him, he could be on the verge of getting TVB after all.

Murdoch's feverish maneuvers are part of the new rush among the world's largest media powers to grab pieces of the massive Asian market. Fighting it out are News Corp., Time Warner, Turner Broadcasting System, Capital Cities/ABC, Dow Jones, and GE. They're all seeking to become powers in China, Taiwan, and Southeast Asia, where demand for more interesting news and entertainment has led to the proliferation of illegal cable-TV hookups and satellite dishes. Local access to foreign programming may displease government officials in Beijing and other authoritarian Asian capitals, says TVB Assistant General Manager Alfred Ng, but "they cannot stop it: first, because of the technology, and second, because the people are demanding it."

As in other parts of the world, Murdoch is focusing on television—and TVB is a major prize. This year, advertising revenues will hit $225 million in Hong Kong alone, says Kirk Sweeny, research director at Shearson Lehman Brothers Inc. Hong Kong. TVB's signal, which China stopped jamming last year, reaches 20 million households in Guangdong province.

STAR RIVAL. The addition would complement Star TV, which Murdoch bought from billionaire Li Ka-shing for $525 million. Star beams MTV Asia, BBC World Service, and other programming to 11.3 million households. TVB also would give Murdoch a link to the fast-growing Chinese film industry via its largest shareholder, Sir Run Run Shaw, who runs the world's leading Chinese film studio, Shaw Brothers Ltd., which cranks out scores of potboilers.

Murdoch may soon drop his Asian newspaper holding to devote more energy to television. To gain share of TVB he will likely trade his 50% stake in *The South China Morning Post* to Robert Kuok, chairman of Hong Kong-based Kerry Group, which controls 36% of TVB. Murdoch paid $230 million for the *Post* in 1986, and it has been a cash cow for News Corp., earning aftertax profits of $76 million last year. But analysts say the newspaper's growth potential is low.

Kuok may see things differently. He is close to Beijing's leaders, who have appointed him to an advisory panel on Hong Kong-China relations. Kuok has extensive real estate holdings in Ch and owning the *Post* would increase clout with policymakers. Press-watch in Hong Kong worry that the *Post* tone down its often sharp criticism Beijing once it has a Chinese boss.

Murdoch's TV moves are jostling other Western giants. In July, Turn Cable News Network announced pl to join a "loose consortium" with T Warner's Home Box Office, Capital ies' ESPN, the Discovery Channel, TVB to form what it calls a "prog neighborhood." The group plans to s a rival to Star TV after the 1994 lau of a Chinese communications satellite June, Turner also announced its pla spend up to $15 million this year set up production facilities in Singapore, kyo, or Hong Kong. New English-guage news and information progr ming should be running by early 19

Time Warner Inc. also is on the m Warner Brothers is looking for an A partner for Chinese-language progr ming. Time Warner's HBO is now on ble systems in Singapore, Thailand, nei, and the Philippines. By yearen will add Taiwan, with Indonesia, Ma sia, and Hong Kong to follow. Jones and GE are pushing into the field of business broadc ing. Dow Jones plans linkup in November an Indonesian satellite beam Asia Business Ne a joint-venture project Singapore Broadcast and Hong Kong-ba Business News Netw GE's CNBC hopes to br cast business news f Hong Kong.

Other Asians are join the fray. Hong Kong glomerate Wharf (H ings) Ltd. is less than months away from lau ing Hong Kong's first ble system. Wharf s that by 1996 it will h 95% of the territory's million households wi Wharf has its own pro tion studio and is mov to install cable in China

As Western-style tel sion spreads across A the huge new mar promises billions to th who can capture part o Murdoch is now in lead, but he will need keep fending off the W ern and Asian rivals try to catch him.

By Dave Lindorff in H Kong

MEDIA HEAVYWEIGHTS ZERO IN ON ASIA

NEWS CORP. Has acquired Star TV, Asia's leading satellite network, and may get a stake in TVB, Hong Kong's biggest TV station

TURNER BROADCASTING Its CNN is joining a consortium to take on Star TV, and it's spending $15 million to set up Asian production

TIME WARNER Hopes to produce Chinese-language programming, and its HBO will be on cable in eight Asian countries by yearend

CAPITAL CITIES/ABC Its ESPN sports network will be part of group setting up a satellite network to rival Star TV

DATA: BUSINESS WEEK

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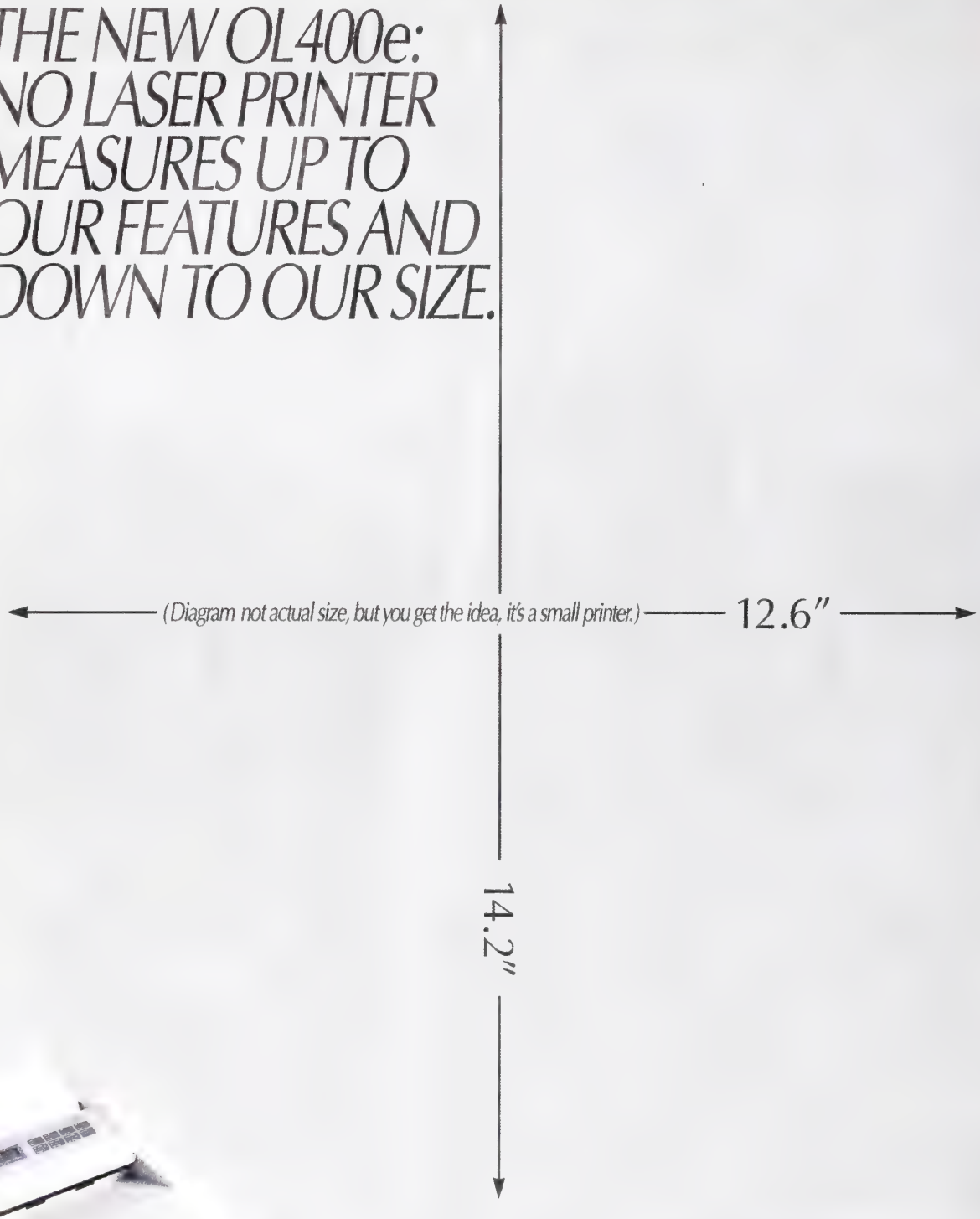

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EDITED BY STANLEY REED

ANADIANS AND KIM CAMPBELL: OVE HER, HATE HER POLICIES

he general election called on Sept. 8 by Canadian Prime Minister Kim Campbell is shaping up to be a very close fight between her Conservative Party and the opposition erals. In fact, one of Canada's leading pollsters, Angus d, predicts it's "very likely" that neither party will win a ority in the Oct. 25 vote, leading to a fragile minority or lition government.

ince she took office on June 25, Campbell, 46, has boosted fortunes of the Tories, who trailed the Liberals by more n 25% in the polls under her unpopular predecessor, Brian roney. Canadians find the witty, irreverent Campbell, who n jokes about putting on weight ffice, a refreshing contrast with stuffy Mulroney. In fact, she is sonally far more popular than Lib- leader Jean Chrétien, 59, a 30- r veteran of Parliament. But the erals still lead the Tories, 40% to , in the most recent Gallup Cana- poll.

CAMPBELL: PRO-NAFTA, BUT OPPOSITION RUNS 2-1

he problem is that regardless r much Canadians like Campbell, y are fed up with the Tories' eco- ic record and polices. Opposition he newly minted North Ameri- Free Trade Agreement, which Tories pushed through Parlia- t last June, is running 2 to 1. Canadians also want some- g done about an 11.6% unemployment rate. But Campbell's ance Minister, Gilles Loiselle, recently warned that be- se of Canada's $25 billion deficit, "we cannot take money haven't got to create jobs."

FAVORITE. In contrast, the Liberals' platform is far more in e with the public mood. Chrétien, who thunders that the S. has been treating Canada as if it were "the 51st state," rs to renegotiate NAFTA on terms more favorable to Cana- n industry. Chrétien promises a more activist economic cy, including a multibillion-dollar infrastructure program to create jobs. He also blasts the Bank of Canada for being obsessed with controlling inflation, which is running at 1.6%.

This platform, and a yearning for change after nine years of Conservative rule, make Chrétien the favorite for now. If that lead holds up, the Conservatives' drive to make the country more competitive internationally could be sharply undercut. Already, investors' concerns about an expansionary monetary policy, stepped-up spending, and other possible consequences of a Liberal victory have helped drive the Canadian dollar to a six-year low of 75.3¢ vs. the American greenback. While business leaders doubt that Chrétien would pull out of NAFTA, they believe a Liberal-led government would likely produce a lot more trade friction with the U. S.

STANDOFF? Analysts are also worried that a strong showing by the Bloc Québécois, which champions independence for the French-speaking province of Quebec, could make Canada an ungovernable mess. The Bloc, which is running candidates in a national election for the first time, could win at least half of Quebec's 75 parliamentary seats. Also, with the ultraconservative Reform Party of Canada likely to make gains in the west, neither of the main parties may be able to win a majority in the 295-seat Commons. Moreover, the Bloc's constant lobbying for a breakup of Canada "would make it very difficult for a government to rule," worries University of Ottawa political scientist John Trent.

For Campbell to pull a win out of this muddle, analysts say, she has to focus the campaign on personalities and dance lightly over the issues. That will not be easy given the anxiety about Canada's jobless recovery. But then again, a country that has become notorious for the blandness of its leaders may decide that the colorful Campbell is worth keeping around.

By William C. Symonds in Toronto

OBAL WRAPUP

ILESTONE IN SOUTH AFRICA

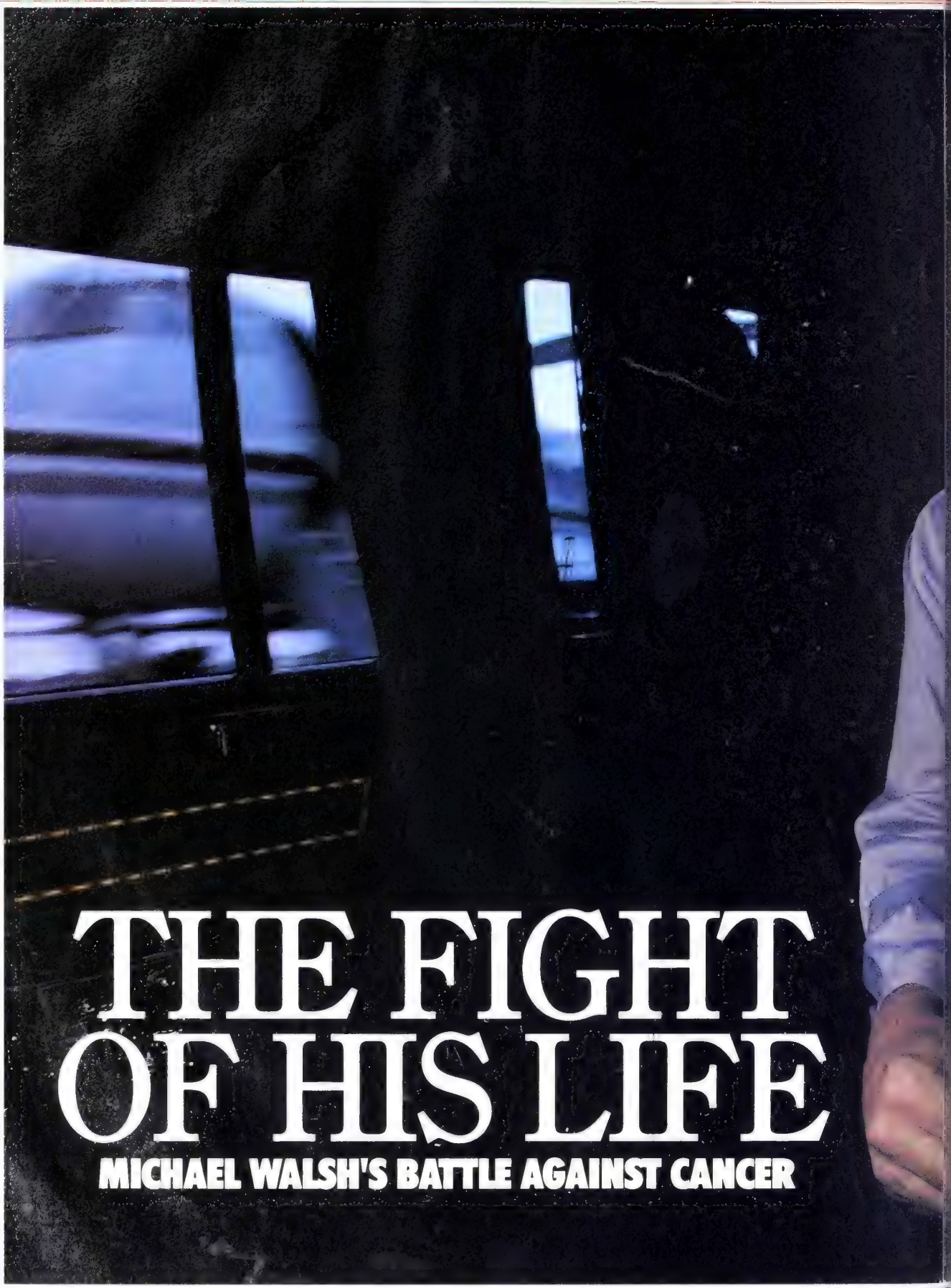
he ruling white National Party's de- cision to share power with black oups through a Transitional Execu- e Council is a breakthrough in the g-stalled constitutional talks. It will ely lead the African National Con- ess, the largest black party, to call a lifting of most sanctions against uth Africa within a few weeks. Only e ineffective arms and oil embargoes e likely to be continued. The TEC, ich will probably be installed by No- mber, is intended to keep any group m using the police or other state stitutions to influence the outcome general elections now planned for Apr. 27, 1994. It will include representatives of each of the 20-plus parties negotiating a new constitution.

But jubilation is tempered by its rejection by important groups, including Mangosuthu Buthelezi's Inkatha Freedom Party, which governs the KwaZulu homeland, as well as the governments of the nominally independent Bophuthatswana and Ciskei homelands. Since 22% of South Africa's 39 million people reside in these areas, their continued resistance to the negotiating process and their increasing hostility to the ANC is becoming a serious threat to the transition to democratic rule. Right-wing white groups are also a troublesome, if lesser, problem.

TOKYO'S REALITY CHECK

After months of insisting that recovery wasn't far off, government agencies and key leaders are conceding that Japan's economy is still in trouble. Prime Minister Morihiro Hosokawa recently expressed concern that the economy is "slipping backwards." And momentum seems to be building for some sort of stimulus package. Speculation is growing that the Bank of Japan will soon cut its official discount rate some 0.5%, to 2%. And the chief cabinet secretary's recent comment that Tokyo is looking at "immediate macroeconomic polices" is seen as a sign that fiscal remedies may be not far off, either.

CHRISTOPHER MORRIS/ SABA



THE FIGHT OF HIS LIFE

MICHAEL WALSH'S BATTLE AGAINST CANCER

Stacy S. Dick, senior vice-president for strategy at Tenneco Inc., mainly remembers the silence. It was so different from the charged bustle that had accompanied Tenneco Chief Executive Michael H. Walsh when he arrived 17 months earlier to turn the misdirected company around. On Jan. 20, Walsh bluntly told the world that he had been diagnosed with an inoperable form of brain cancer. The stunned office fell into stillness.

Dick's mother had died of cancer when he was a child, so perhaps the shock was especially poignant for him. It took a few days before he slowly began to accept what had happened. The first time they spoke after the announcement, Dick decided not to raise the subject unless Walsh raised it first. The conversation ran through business as usual until Walsh tried to put his halting lieutenant at ease. "Everything's O.K.," the boss said simply. "Don't worry about it."

Eight months later, it's hard not to. Walsh, 51, has clearly been battered by his cancer and its treatments. His shock of thick brown hair is gone, except for a wispy fringe at ear level. He walks unsteadily, with a pronounced limp in his left leg. In conversation, he gestures animatedly with his right hand while the left lies still in his lap.

But get past outward appearances, and Walsh's confidence and candor remain startlingly intact. With the same intensity that propelled him from the U. S. Attorney's Office in San Diego to the world of corporate turnarounds, the hard-edged, "no-excuses" executive is now managing the fight of his life. Walsh's unrelenting optimism has also served to calm a $13 billion conglomerate smack in the middle of a wrenching reorganization. "A situation like this has to be the hardest thing a person can go through," Walsh remarks in his raspy voice. "You wouldn't wish it on your worst enemy."

CONFIDENCE INTACT, HE IS GUIDING TENNECO THROUGH WRENCHING CHANGES

IN THE SPOTLIGHT. Few top executives will ever face such a life-threatening trauma, and those who do typically shun the spotlight. Reginald Lewis, chairman of closely held TLC Beatrice International Holdings Inc., died of brain cancer only a day after the world learned of his disease—and coincidentally a day before Walsh's announcement. Time Warner Chairman Steven J. Ross announced he had prostate cancer in 1991, but the company routinely downplayed the seriousness of his condition until the disease overtook him a year later.

Walsh doesn't relish the publicity he's gotten, either. But he decided early on to stay at Tenneco's helm and manage the situation with brutal honesty. The question is whether the can-do culture he's instilling at Tenneco can handle both the trauma of a restructuring and the tragic implications of his disease. Says prominent management psychologist Harry Levinson: "There has to be all kinds of anger, depression, fear, worry. Ideally, one needs to deal with these with more than a stiff upper lip."

For Walsh, cancer is just another turnaround situation. "Human beings manage their way through these things," he says, "and it's not miraculous, or it's not all miraculous. It's about 90% discipline and sweat." Given that the median survival rate for someone with his type of tumor is five to six years, Walsh doesn't deny that there could be "a very unpleasant outcome to this." But his attitude is simple: You have to get on with it. It helps that Walsh's doctors have lately given him some hope: They say the tumor appears to have stopped growing and may be breaking up. Walsh isn't trumpeting the

Walsh presses the flesh at a meeting with securities analysts in New York

Daughter Kim looks on as Walsh gets a hug of support from a friend

news, since he knows the disease can take sudden and unpredictable turns. But it's good news, nonetheless.

In any event, Walsh never seriously considered stepping down from a job he loves and one that he paints in grandiose terms as a chance to prove America's industrial might. The board never questioned his decision, and with the solid backing of his doctors, he has continued to shepherd the restructuring he began two years ago. In March, only weeks out of exhausting radiation treatments, he orchestrated a $1.1 billion equity offering to help pay for the makeover of Case Corp., Tenneco's long-troubled farm-machinery maker. And along with trusted President and heir apparent Dana G. Mead (page 64), he is pushing quality and cost-cutting programs that added $215 million to operating profits in 1992 and an additional $112 million through June 30 of this year.

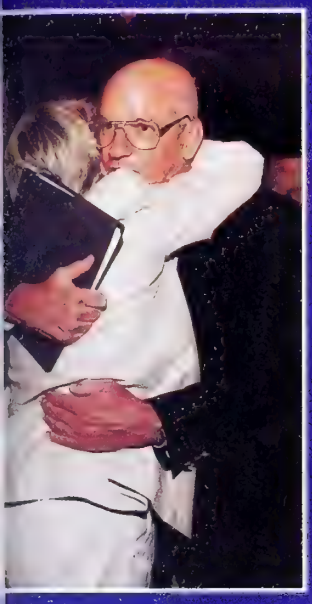
GRUELING SCHEDULE. But those close to him have had a much harder time with his decision to stay at his post. Initially, Joan Walsh struggled quietly with fears that the cancer treatments might take their toll on her husband of 26 years. In the retelling, the force of her feelings surprises her. "I was outraged he was going to the office," she says now. "As a matter of fact, I was furious. I'd forgotten all that."

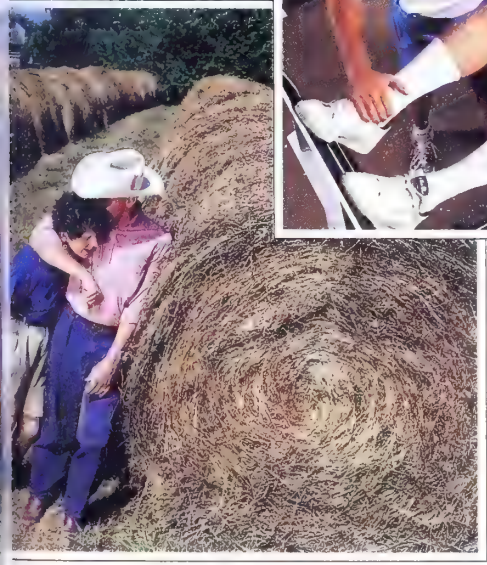
She also knew, though, that her husband could do nothing else. His attempts to handle both his own recovery and that of his company have been pure Mike Walsh. Calibrated, methodical, he managed the crisis exactly as he would any business situation. There was no room for undue emotion. The hurdles were met with rational dispatch. Pushing ahead, he notes, "is not such a courageous thing or so terribly meritorious. But, practically speaking, if you don't, what the hell do you do?"

The cancer itself crept up on Walsh just as he was hoping to lighten a grueling schedule at Tenneco. By the end of last year, the company turnaround was gaining momentum and Walsh's confidence was growing. But one day last fall, as he walked around a jogging trail near his Houston home, an eerie sound stopped him short: Although he hadn't really noticed, his left foot was dragging in the dirt. When he looked down, scuff marks confirmed that he'd been limping.

At first, Walsh attributed the problem to back surgery he'd had in February, 1992, for a ruptured disk. As the weeks went by with no improvement, it was increasingly clear that something else was wrong. There were no headaches, no vision problems—none of the symptoms that would have pointed to a brain tumor. So d- tors tested Walsh for everything fr Lou Gehrig's disease to multiple sclero before their suspicions slowly turned cancer. After a brain scan and biopsy Jan. 13, they told Walsh it was 80% li- ly that the tumor was malignant, l more sophisticated tests were needed. the six painful days of waiting that f lowed, Walsh clung to the hope that e would beat the odds.

Planning for all contingencies, he a started to chart how he would disclo the news, whatever the outcome. W his head partly shaved, he never cons





At the morning session, Walsh was feisty as ever but physically limited

l hiding the matter. ("What would I
'The barber slipped?'" he laughs.)
called the chairs of the board com-
ees, seeking their advice on disclo-
. And he alerted key staff members
hey could prepare alternate press
ases over the weekend and plan
munications for employees.

eanwhile, Walsh and his wife start-
alling friends nationwide, choosing
gnates in each city to
fy other friends. "We
't had one day to our-
es," says Joan, who com-
s those first weeks to
irrealistic play. "Mike
termined the whole
. He said, 'This is what we have to do, and how we have to do it.'"

When Walsh made a heartfelt videotape for employees two days after the announcement, he spoke for 22 minutes without a script. It was Vince Lombardi urging his team to victory. "Sure, there's some small risk that you become somewhat fatigued," Walsh said after a frank assessment of his illness. "But I'll tell you, working 80 hours a week for the last 18 months, I'm somewhat accustomed to fatigue as I know all of you are.... The kind of momentum we've built, we will and we must sustain.... Keep up the good work. Don't look right or left. We're going on." Tenneco's British chemical unit decided not to show the tape to its employees, deeming the speech too emotional.

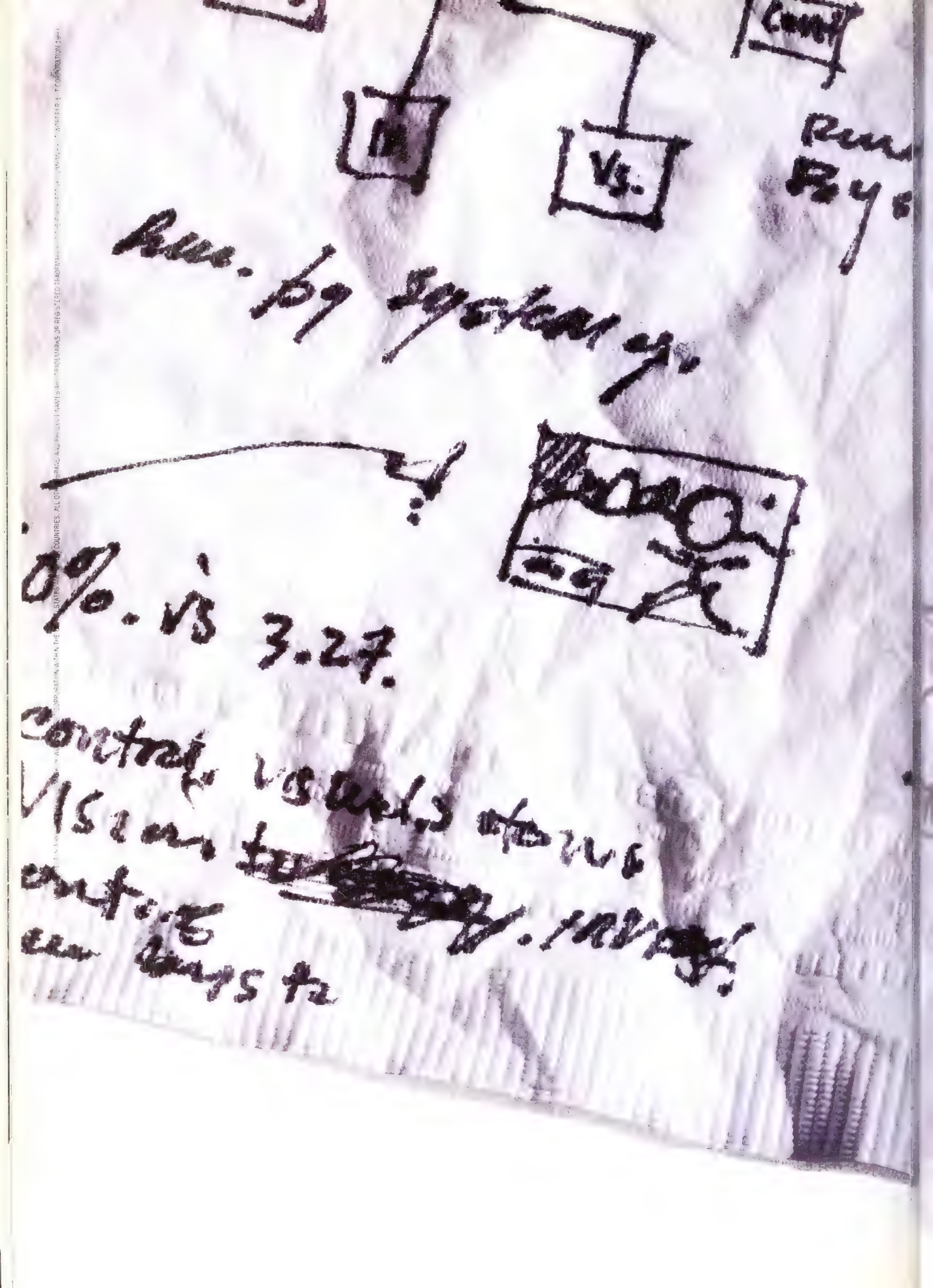
DOSE OF HUMOR. The first month of intensive radiation was grueling, but Walsh insisted on attending critical meetings. With his chemo pump slung over his shoulder, he quickly broke the ice at the monthly operating review of his six division chiefs on Jan. 27. "O.K., guys, you all realize I'm having short-term memory problems," he joked. "Would you all introduce yourselves?"

Walsh handled his hair loss with a similar dose of humor. "We went three weeks with no hair loss, and we were so cocky," says Joan. "Then one morning, he woke up and there it was, all over the pillow." Walsh wore a wig for a few national TV appearances and a board meeting, but soon scrapped the hated hairpiece. Tenneco Director John B. McCoy, CEO of Banc One Corp., remembers teasing Walsh that he could certainly afford a better wig, considering his $975,000 annual salary. Walsh's response: "He ripped his hair off and threw it at me," laughs McCoy.

Walsh says he has learned to pace himself and to focus his energies on tasks where he brings "added value, as

Continuing life as usual: In Houston with his family; at the ranch with his wife, Joan; working out with a personal trainer

(TOP, LEFT TO RIGHT) AP PHOTOGRAPH BY MARK PETERSON/SABA; STEVEN PUMPHREY (2)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opposed to unnecessarily and impulsively sticking my nose in." He's delegating more to Mead and the rest of the senior team he assembled well before discovering his illness. Several had worked with Walsh at either Union Pacific Railroad Co. or Cummins Engine Co. Joan sees a change at home, too. Walsh used to insist on being part of nearly every household decision, from choosing carpet colors to buying antiques. Now, she says, "he wants to focus on the important parts of the business and his health. What does he care what color carpet we've got?"

Company managers have taken their cues from Walsh. They quickly abandoned any efforts to treat him with undue tenderness after he showed his annoyance with those who would open doors for him or carry his briefcase. They maintain that despite their boss's physical limitations, Tenneco hasn't missed a beat in its restructuring effort. In sickness as in health, Walsh is unrelenting in his demand for bottom-line results. Morgan Stanley & Co. analyst John J. Mackin expects Tenneco's operating profits to climb 41% this year, to $1.2 billion, despite a slight drop in revenues to $13 billion.

BUSY FAX. Although Walsh remains a strong presence at the office, he has had to scale back somewhat. Bouts of fatigue are the main side effect from a regimen that now includes chemotherapy pills and 10-minute intravenous treatments twice a month. That means he travels far less and works at home more. (His house in Houston's lush Memorial section is only 10 minutes from the office.) But his phone and fax machine are always busy, colleagues say, and he leads the senior staff meetings each Monday.

Walsh's recent appearance in front of a group of analysts and investors at New York's Waldorf Astoria hotel highlights how his life has changed. At a rehearsal for the meeting the night before, Walsh was as feisty as ever. Running through the 10-minute slide presentation, he pointed out an annoying shadow at the edge of the screen. He questioned the colors used in the slides and complained bluntly about the speech that he was supposed to deliver. "The problem is, it's boring as hell," he said.

But when he stood at the podium to practice his delivery, he had to pull a chair behind himself for support. And when he left that evening to take his 24-year-old daughter Kim to dinner, she tenderly took his arm to lead him from the room. During the next morning's session with the analysts, none ventured a question about his health, although he had prepared his answer—a crisp "fine, how are you?" In whispers, they queried a reporter later: "How's he doing?" Noted one institutional investor sadly: "He's really a much diminished figure."

The tumor has left Walsh with some weakness in his left side. But he's determined to compensate for that. A former high-school football star who attended Stanford University on an athletic scholarship, he has always been a fitness fanatic. While he hasn't been running, skiing, or horseback riding lately, he swims, lifts weights with a trainer, and rides a stationary bike at a club near his home four times a week. "I'll be right back to where I was within a minimum of six months," he says confidently. "I'm absolutely committed to skiing Christmastime" at his home in Steamboat Springs, Colo.

That's typical Walsh. His life has been defined by the singular wealth of self-assurance common to turnaround specialists. As far back as grade school, friends and acquaintances remember him as supremely confident, even cocky. He was never shy with his opinions.

He was the third of four children born to Betty and Ted Walsh. His father, a stern, imposing man, grew up in the hardscrabble town of Butte, Mont., and eventually made a career of managing movie theaters. Mike was a fair, though not brilliant, student. But he was a natural leader, becoming student-body president and an All-State football player at Lincoln High in Portland, Ore. At Stanford, he suffered his first real disappointment: A boyhood dream to play pro football was cut short after repeated operations for dislocated shoulders. Then, in his junior year, his father died of cancer—colon cancer, Walsh is quick to point out. "Obviously, that would be a hard blow for any kid," he acknowledges plainly.

After Stanford, Walsh hit the fast track early. He was chosen for the first class of White House Fellows in 19[illegible]. While in Washington, he started dating

Glory days: Walsh as an All-State football player in high school, speaking as an activist in the citizens' group, Common Cause, and as chief executive of Union Pacific during a visit to a Nebraska railroad yard

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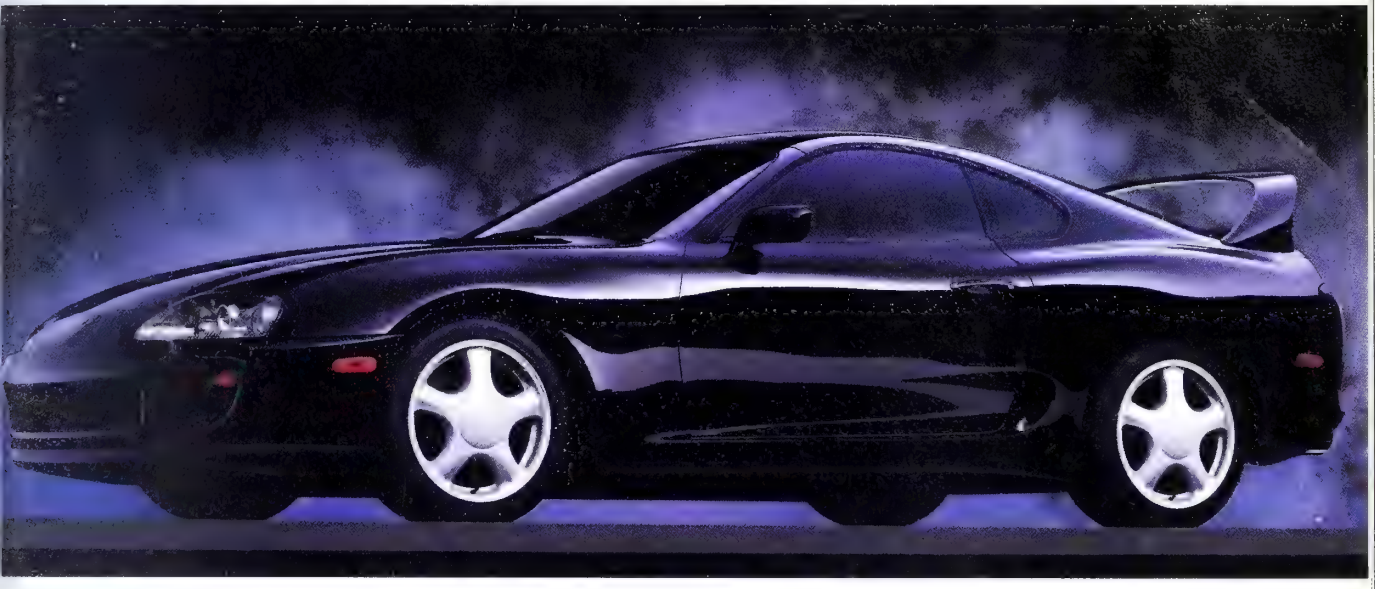

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Joan Royter, who was an assistant dean of foreign students at American University. He went on to Yale University Law School, and after graduating in 1969, he landed a job as a public defender in San Diego. There, he worked with John Gardner to help found the citizens' action group Common Cause.

When he was named U.S. Attorney for the Southern District of California in 1977, Walsh set out to reform an office that was losing about a third of its cases. His public pronouncements that he would recruit only the best and brightest struck some veteran assistants as arrogant and high-handed. But Walsh's team improved the conviction rate and tackled more complex cases involving organized and white-collar crime.

When Walsh was recruited by Indiana-based Cummins in 1980, at the ripe age of 37, friends thought he was crazy to leave behind a prestigious legal career, a potential future in politics, and an old Spanish house with a 180-degree view of the ocean. Joan, meantime, had to give up her career: She had become dean of the international center at the University of California-San Diego.

BACK ON TRACK. Both welcomed a change, however, and Mike saw the corporate world as a new challenge. He quickly learned the ropes at Cummins and moved rapidly through jobs in manufacturing, marketing, and international operations. By 1984, he was an executive vice-president and was named to the board of directors.

But it was at Union Pacific Railroad in Omaha that Walsh hit his stride as a corporate leader. Although the railroad posted record earnings in 1985—the year before he arrived as CEO—its return on assets was a dismal 4.8%. In dozens of "town meetings" with employees across the country, Walsh drove home the message that the railroad must change. To cut costs and boost efficiency, he centralized 10 regional dispatching centers into one sophisticated command post. He surveyed customers for the first time and initiated far-reaching quality programs. By the time Walsh left for Tenneco in September, 1991, productivity and net income had doubled. Return on assets had jumped to 6.7%.

In Houston, he discovered a company in far worse shape than he had been led to believe. Earnings and cash flow were falling short of targets in nearly every unit. Case was awash in inventory and furiously discounting to jam products down dealers' throats. Tenneco's debt was a crippling 70% of capital. Worse yet, few executives showed much urgency to solve the problems. In the midst of this gloomy introduction to the company, Walsh telephoned Joan to say he was thinking of backing out. "I was totally discouraged," he recalls.

Walsh put a fix-it strategy to work immediately. He halved the long-sacred dividend and sold $700 million worth of assets by the end of 1991. Then, he organized an effort to sift through Tenneco's manufacturing processes unit-by-unit to eliminate quality problems and inefficiencies that bloated costs. He axed 10,000 jobs in 1992 and cut expenses by $250 million.

But his biggest push has been to instill a new corporate culture at Tenneco. Called "no-excuses management," it requires that executives meet targets despite outside economic forces. Progress against plan is reviewed weekly and monthly. "We still talk better than we play," Walsh says. Progress has been made, however. And Walsh is determined he will not let his personal misfortune interrupt Tenneco's momentum.

So far, the rest of Tenneco's managers seem to have joined Walsh in this resolve to push forward. In interviews, they talk freely about the continued challenge Tenneco faces, though they politely keep their feelings to themselves when the topic turns to Walsh's future. Not surprisingly, Mead is especially unwilling to dwell on the odd position he finds himself in. He doesn't duck questions about his status as heir apparent. But he doesn't like to talk about it either. "The succession thing will take care of itself," he says simply.

"RUTHLESSLY RATIONAL." Some organizational experts wonder whether such business-as-usual approach is sustainable. They commend Walsh for dealing with the issue openly but worry that the psychological impact may demand more attention than Tenneco is giving it. "Most people pretend that if you can deal with [what's out in the open], that's enough," says Ian I. Mitroff, director of the University of Southern California's Center for Crisis Management. "But you see the emotions of an organization, you only see the tip of the iceberg." Ralph H. Kilmann, professor of organization and management at the University of Pittsburgh's business school, agrees. He suggests that companies facing a crisis like Tenneco's need forums, formal and informal, where people can talk about the problem. "This is a topic where there often can be high levels of denial."

Walsh and his lieutenants scoff at the suggestion they're in denial. And they've made no plans to bring in outside counselors. Walsh doesn't pretend that his employees don't have feelings about the disease. But he thinks the issue can be handled internally through clear communication. Says Arthur H. House, vice president of corporate affairs: "He honestly believes that most people would think they know how organizations should run are wrong."

As far as counseling for himself, Walsh hasn't pursued any, although he has confided in a broad network of friends and family. Likewise, Walsh has never reached for answers in spirituality or religion. "He really gets his strength from his family, from what he's doing," says Joan, who shares his feelings. Syracuse college buddy T. Robert Burke, a San Francisco attorney: "He's thoughtful about it but also determined. He's almost ruthlessly rational."

Walsh does spend more time now relaxing with Joan and visiting with their three grown children. "We go to movies and go out to dinner a lot more," Joan says. And the couple spends every weekend at their 85-acre ranch in tiny Round Top, Tex. They read, listen

TENNECO'S MENAGERIE OF BUSINESSES

TOTAL 1993* SALES: $13 BILLION **TOTAL 1993* OPERATING EARNINGS: $1.2 BILLION**

CASE CORP. At 29% of sales, Tenneco's biggest unit—and problem. This maker of farm and construction machinery took $920 million restructuring charge in 1992. Slashing capacity, jobs, product lines. Reduced discounting. Should turn small operating profit in 1993.

TENNECO GAS (17%) One of largest U.S. natural-gas pipeline companies. Solidly profitable but highly regulated. Cutting costs while seeking new nonregulated projects. Also expanding ventures in electric generation while financing oil and gas exploration.

NEWPORT NEWS SHIPBUILDING (17%) Backlog still big at $4.1 billion, but defense cuts hurting. Cut 4,000 jobs while streamlining operations. Pursuing Navy's Sealift program and expanding to commercial building and repair.

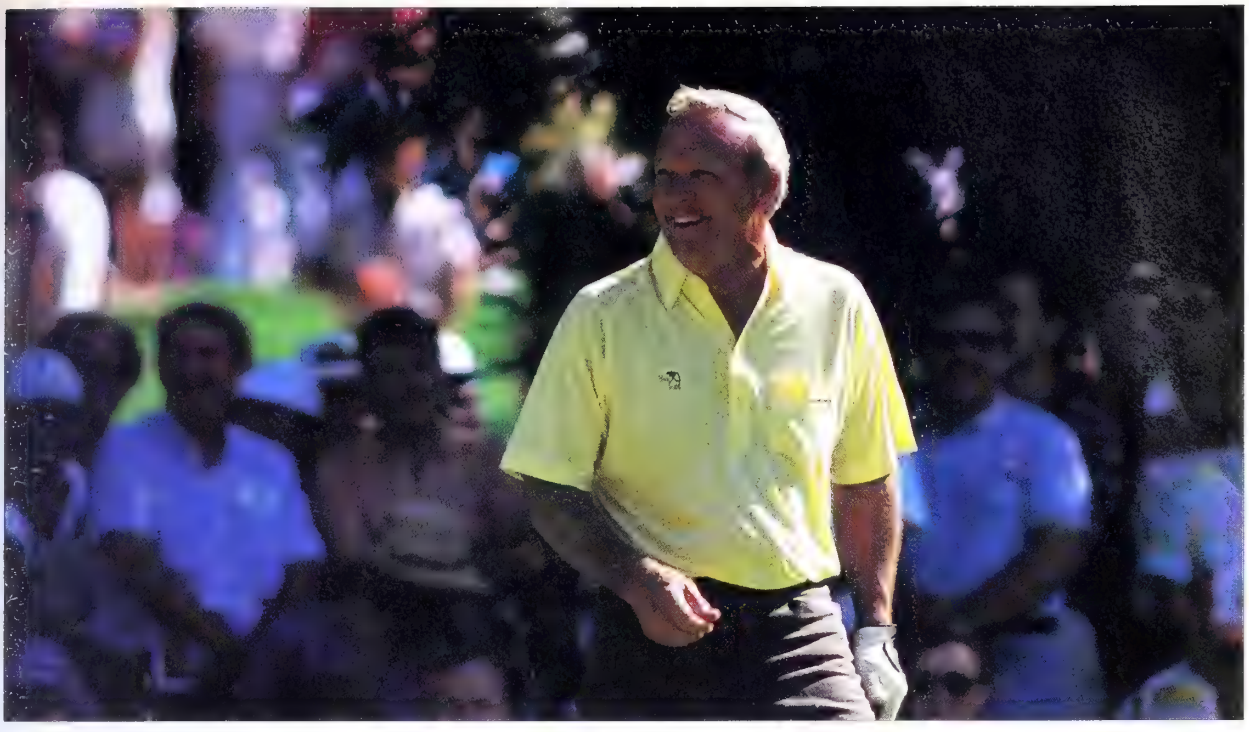
PACKAGING CORP. OF AMERICA (16%) Hit hard by eroding linerboard prices. Reducing plant down time and scrap to cut costs.

TENNECO AUTO (14%) Walker mufflers, Monroe shocks. Solidly profitable.

ALBRIGHT & WILSON (7%) Chemicals. Market slow in Europe. Cutting costs aggressively.

*Estimates

DATA: MORGAN STANLEY, COMPANY REPORTS, BUSINESS WEEK



"There's no way I can ever give the galleries as much as they've given me." *Arnold Palmer*

Few athletes have forged as enduring or intimate a bond with sports fans as Arnold Palmer. The sight of his slashing swing on black-and-white television screens in the late fifties, when he won the first of his four Masters Championships, helped launch the modern game. Some thirty years later, his commitment to the Senior Tour transformed an intriguing notion into a major force.

The key to Arnold's charisma has always been his unique accessibility. His open, determined face shares every up and down of a crucial round. "A lot of athletes go about their business, and don't relate to people," says Palmer, "but I like having the folks with me." And his army of followers knows it.

As Lee Trevino once pointed out, "Arnie has more people watching him pack the trunk of his car than we have watching us on the golf course."

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music, cut roses. "It sounds so trite," Joan says apologetically. "'You smell the roses more.' Well, you do."

Joan definitely sees a gentler side to Mike since his illness. She recalls a recent trip to Washington where, on a postdinner walk near their hotel, they encountered panhandlers on virtually every corner. Walsh stopped at each one, often engaging in conversation and pulling out his money clip. "All of a sudden it dawned on me, this is the new Mike," Joan laughs.

And the future? "Listen, we're not stupid," she says. "Some people make it. Some people don't. There are no contracts." For the time being, she's just focusing on Mike's getting through this year's treatments. As for the company, the board of directors has complete access to Walsh's medical records. "We will know if things go in the wrong direction," comments audit committee Chairman Peter T. Flawn. Walsh figures that the future will take care of itself. "I have a feeling there are a lot of chapters yet to be written," he reflects. Right now, it's just a matter of getting on with it.

By Wendy Zellner in Houston

TENNECO'S NO. 2 COULDN'T HAVE ASKED FOR A TOUGHER JOB

If Dana G. Mead were superstitious, he might have thought twice about coming to Tenneco Inc. On one visit to Houston as the company courted him, Mead arrived at Chief Executive Mike Walsh's house just as his longtime friend was leaving in an ambulance to undergo surgery for a ruptured disk. Walsh prevailed upon Mead to take the No. 2 job, but even before his first press interviews, Mead was handed a note saying a company gas line had blown out in Tennessee and burned down four houses. "That was my introduction to the gas business," he laughs.

Tenneco's president can joke about all that now, but there's nothing funny about the position he's in. While Mead, 57, was handpicked as Walsh's heir apparent, Walsh's cancer casts that status in an unfortunate new light. Mead deals with the situation by simply accepting it for what it is. "Obviously," he says, "everybody's praying this thing is going to work out."

Tenneco's employees, directors, and investors are just glad Mead is there. The former U. S. Army colonel's calm manner and clear competency have gone a long way to soothe their fears about what would happen if Walsh failed to beat the odds. Would Tenneco be seriously wounded without Mike Walsh? Says one major institutional investor: "If he had not brought in someone I think is sensational, the answer would be a big yes."

Outward appearances aside, the stocky, silver-haired Mead has much in common with his leaner, more intense boss. Like Walsh, he's a former White House Fellow and star athlete. He was All-State in three sports at his high school in Wood River, Ill. Mead also knows plenty about restructurings. A 14-year vet of International Paper Co., he helped that $14 billion behemoth modernize manufacturing and expand in Europe. He rose to executive vice-president and was a frontrunner to succeed CEO John Georges.

"Obviously," says President Mead, "everybody's praying this thing is going to work out"

But when Walsh called in late 1991, Mead was ready for a change. They had been friends for years thanks to their White House ties, and when they first discussed the Tenneco job, "we had a terrific meeting of the minds on nearly everything, from the way you raise your children to the way you run your business," says Mead. He had been approached about CEO jobs at smaller companies but was drawn by the Tenneco challenge and a chance to work with Walsh.

Mead's career has taken more than a few turns. After graduating from West Point in 1957 with an engineering degree, he served tours in West Germany and Vietnam. While still in the Army, he earned a doctorate in political science and economics from Massachusetts Institute of Technology. In 1968, he helped write part of the controversial Pentagon Papers. He served as deputy director of the Domestic Council under President Nixon and then became a West Point professor. "He had a great sense of humor and didn't take himself as seriously as some military officers," recalls former Nixon staffer John Ehrlichman.

A sense of humor has certainly helped at Tenneco, where Mead is now working longer hours due to Walsh's illness. He was already swamped with responsibility for day-to-day operations. As architect of Case Corp.'s transformation, he spent months last year in a blacked-out "war room" in Case's Racine (Wis.) offices. Now, he spends more time with headquarters staff and handles other duties Walsh used to shoulder. In April, Mead led most of the 72 "road shows" Tenneco used to sell its $1.1 billion stock offering.

His jammed schedule has left little time for visits to his home in Santa Fe, N. M., or his farm in Vermont. But he's enthralled with his new job, regardless of the strange circumstances. "I doubt if there's another corporate president in America that's got a better job than I've got," he says. Anybody want to swap?

By Wendy Zellner in Houston

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American Express. IBM. Westinghouse. They're three of America's corporate titans—and all three have new chief executives at the helm. All three chiefs, in turn, share something on their resumés: they've worked for the world's most prestigious management consulting firm, McKinsey & Co.

McKinsey consultants have been moving into executive suites ever since James O. McKinsey left the firm he founded in 1926 to head retailer Marshall Field & Co. But in the past year, the McKinsey Mafia, as some call it, has really scaled the heights. Besides IBM's Louis V. Gerstner Jr., there's Harvey Golub, who won the top job at American Express Co. in February, Michael H. Jordan, who took over at Westinghouse Electric Corp. in June, and Philip Purcell, CEO of the recently spun-off Dean Witter unit of Sears, Roebuck & Co.

Measured by the number of alumni who have captured corner offices, McKinsey is by far the most influential consulting firm in the world. And McKinsey-bred chairmen, CEOs, and presidents also vastly outnumber those schooled at the corporations vaunted for turning out top-management materi

THE McKINSEY YEARBOOK

Hundreds of McKinsey & Co. alums boast the titles of chairman, chief executive, or president. The vast majority of them run their own companies. But there are dozens who sit atop major public corporations. Here are a few of the more prominent chieftains out of McKinsey's alumni book.

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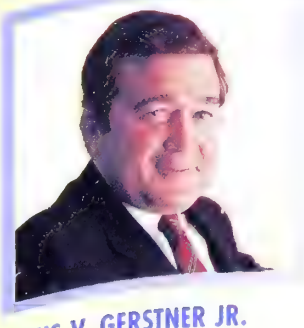
CEO & President
Sotheby's Holdings
McKinsey 1968-71

PAUL W. CHELLGREN
President & COO
Ashland Oil
McKinsey 1967-68

WILLIAM B. ELLIS
Chairman & CEO
Northeast Utilities
McKinsey 1969-76



LOUIS V. GERSTNER JR.
Chairman & CEO
IBM
McKinsey 1965-78

HARVEY GOLUB
Chairman & CEO
American Express
McKinsey 1967-74, 1977-83

uding General Electric, IBM, and cter & Gamble. The firm's prodig- offspring run companies in a broad ıy of industries, from jeans maker i Strauss to cable-TV operator Tele- ımunications, software producer Lo- Development, battery maker Dura- International, auction house ıeby's, and giant Northeast Utilities. IcKinsey alums, moreover, wield con- rable power and influence in scores ıther companies where they aren't dogs. A dozen or more of the firm's onsultants populate the senior ranks uch brand-name companies as Citi- k, General Electric, and PepsiCo. Kinsey-trained executives hold key at J. P. Morgan, Raychem, Merrill ch, Times Mirror, First Boston, Sal- ın Brothers, and the World Bank. e big knock on consultants is that if can't do it, you consult," says Jeffrey Skilling, a former McKinsey senior ıer who is co-chairman of $6 billion on Gas Services Group. "If a large ıp of us can be successful as execu- s, it's a powerful signal that that's the case."

ut just why are they successful— why now? What is it about these Kinsey types that makes them so at- tive to U. S. corporations? For start- ers, you don't get to be an ex-McKinsey- ite without first having survived one of the most ferocious selection processes imaginable: The firm combs through more than 50,000 resumés a year to hire about 550 new consultants.

Then there's the intensive training those select ones receive and the expo- sure they get on the job to a broad range of companies and issues. "It's a cram course in business experience," says Paul W. Chellgren, an alumnus who is president of Ashland Oil Inc. "It was a compressed opportunity to see a lot of companies, industries, and problems in a short period of time. You got your BS, your MBA, and your McK."

POWERFUL WEB. Nor should one discount the value of the McKinsey old boys' net- work (which has a few old girls, too— women represent less than 5% of the firm's 465 principals and directors). Every erstwhile McKinseyite has a powerful global web of 3,500 fellow alumni to call on, or be called on by (page 74). They routinely hire one another and call on the consulting services of their alma mater firm. And because McKinsey's as- signments usually involve major issues of strategy and organization, consultants rub shoulders with senior managers and directors at client companies.

Even more important than the selec- tion, the education, and the connections, though, is what might be called the McKinsey Method. It's a cool, analytical approach to management that challenges assumptions and rejects wishful thinking. "You learn what I call ruthless logic," says Westinghouse's Jordan, who worked for McKinsey from 1964 to 1974. "You cut through emotions and people's opinions and get down to the facts. That discipline has been the foundation for my ability to work through complicated situations."

Of course, McKinsey's partners are hardly infallible. It was McKinsey, for example, that advised General Motors Corp. on its disastrous mid-1980s reor- ganization. The consultant restructured the massive company from five into two carmaking groups that, critics say, re- sulted in even greater inefficiencies and failed to cut costs or improve productiv- ity. And there are no doubt scores of other assignments that didn't result in improved corporate performance—though determining whether the problem was bad advice or bad execution is well nigh impossible.

Nor has every alum been a success when making the move from consultant to executive. In December, for exam- ple, William E. Johnson resigned as chief

PHOTOGRAPHS BY JEFFREY AARONSON/NETWORK ASPEN; SETH RESNICK; JOHN S. ABBOTT

ROBERT D. HAAS
Chairman & CEO
Levi Strauss
McKinsey 1969-72

MICHAEL H. JORDAN
Chairman & CEO
Westinghouse Electric
McKinsey 1964-74

C. ROBERT KIDDER
Chairman & CEO
Duracell International
McKinsey 1969-72

JOHN C. MALONE
CEO & President
Tele-Communications
McKinsey 1968-70

JIM P. MANZI
Chairman & CEO
Lotus Development
McKinsey 1979-83

PHILIP J. PURCELL
Chairman & CEO
Dean Witter
McKinsey 1967-78

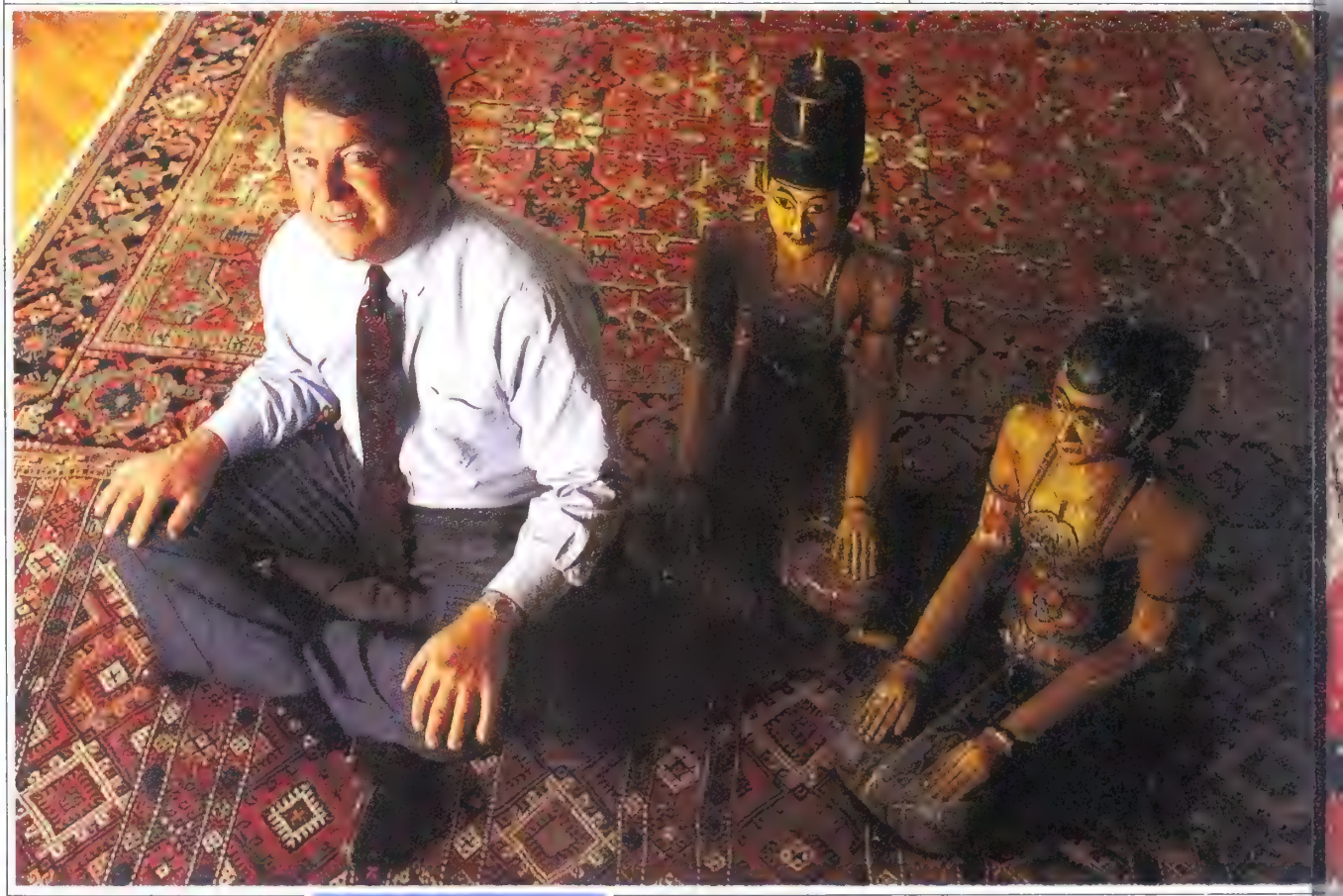
executive of Scientific-Atlanta Inc. after a dispute with the board of directors. Although the ex-McKinsey consultant had successfully restructured the electronics concern, he clashed with the board over his tough management style.

Some critics, moreover, believe McKinsey's meteoric growth in recent years has made it a bureaucratic, unwieldy organization that too frequently dishes out homogenized advice. But dozens of interviews with clients, competitors, and former McKinseyites suggest that its

With their fact-based, problem-solving style, those schooled in McKinsey methods are known for bringing a dry-eyed willingness to question traditions, set new strategies, and take the often painful steps necessary to help companies change with the times. "Strategic thinking is in great demand, and if McKinsey has a niche, it's strategy," says Gerard Roche, chairman of Heidrick & Struggles Inc., who did the executive searches for the CEOs at Westinghouse and IBM.

"It was the supremacy of the idea t
was important, whether it came fr
the youngest associate or the most s
ior partner. The task was to come
with the right answer."

That was certainly the experience
Karl R. Wyss, chairman of Lear Sieg
Inc., who did a seven-year stint at
firm. Wyss took over Lear Siegler t
years after the conglomerate was ta
private by Ted Forstmann & Partner
1987. For years, managers believed t
had been making money in a signific



role as the premier purveyor of management advice remains intact. And its financial performance over the past five years provides further evidence of its success in the marketplace. McKinsey's revenues have more than doubled since 1987, climbing to $1.2 billion from $510 million, clearly outpacing the industry's growth rate. "It's a first-class firm and everybody's longtime paragon of a high-quality company," comments David G. Robinson, chief executive of CSC/Index Inc., the Cambridge-based consulting firm that pioneered the hot concept of reengineering.

UNDER FRED GLUCK, McKINSEY HAS OPENED 18 OFFICES

What sets McKinsey apart, even some rivals concede, is that the firm continually assembles the very best people, is more likely to work at the highest levels of management, and demands a near-religious devotion to the job. And with 60% of its revenues coming from outside the U. S., McKinsey consultants view problems in particularly global terms.

Many alums say their McKinsey years were among the most formative of their careers. "McKinsey had a culture that fostered rigorous debate over the right answer without that debate resulting in personal criticism," says IBM's Gerstner.

product line, recalls Wyss. Wrong. "
only did we find we were losing a l
dle, but we had lost half of the shar
the market in the past five years w
out management knowledge."

NO ASSUMPTIONS. Wyss relocated
plant to take advantage of cheaper la
and reengineered the product to
manufacturing costs. It was a typ
McKinsey approach: Take nothing
assumption, gather all relevant fa
draw conclusions, and make recomm
dations. "My McKinsey experie
taught me that many managers w
with partial or wrong information.
they compete on success factors t
are no longer true anymore," he say

Of course, McKinsey's most profo
impact on business comes in its offi
role as corporate doctor to at least

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of the 500 largest U. S. corporations, as well as many of the most elite foreign giants. When CBS Inc. wanted a strategic review of its structure, operations, and finances in 1991, it turned to McKinsey. When PepsiCo's Frito-Lay Inc. wanted a study of its long-term strategy, McKinsey served up solutions that led to the dismissal of nearly a third of Frito-Lay's corporate headquarters staff.

At Eastman Kodak & Co. earlier this year, McKinsey came up with a raft of recommendations for Chairman Kay R. Whitmore, including the sale of its chemical unit. The consultants presented their ideas directly to the board just as it was having doubts about Whitmore's abilities to aggressively follow up. At ITT Corp., McKinsey won out over two other firms for an assignment to analyze the conglomerate's nine corporate and divisional headquarters by the end of this month. Estimated cost of the study: about $3 million. Expected savings: $90 million from greater efficiencies and layoffs.

For all its influence and pervasive presence, McKinsey has recently suffered a few bruises to its reputation. Mass defections of the kind McKinsey has rarely known have begun troubling the firm lately. Last year, a New York-based partner defected to rival A.T. Kearney Inc. to head that consulting firm's financial-services practice. He took with him 16 McKinsey consultants. The firm's Italian office, in particular, has been riven by defections. In late 1989, Gian Filippo Cuneo, one of the hottest McKinsey partners, left to set up his own firm, taking 15 colleagues with him. Last January, Giorgio Rossi Cairo, another top Italian partner, walked out with 14 professionals to go directly into competition with his alma mater and Cuneo.

CULTURE CLASH. More importantly, over the past decade, the fastest-growing area of consulting has been in information technology, where corporations have been making their biggest capital investments. McKinsey, as a general management-consulting firm, attempted to play catchup through—uncharacteristically—acquisition. It bought Information Consulting Group in late 1989 from British-based Saatchi & Saatchi Advertising International. But more than half of the 19 partner-level technology experts it acquired in the deal have since walked out, including ICG's president, Gresham T. Brebach, who left for Digital Equipment Corp. earlier this year. Of the original 245 ICG staffers, only 94 have stayed.

Although the acquisition was championed by Fred W. Gluck, who has guided the firm since 1988, it nevertheless ran afoul of McKinsey's intense, dominant culture. Under Brooklyn-born Gluck, McKinsey has made successful forays into new territories, opening 18 new offices, all but two outside the U. S. He also launched an elaborate internal network for making better use of the intelligence McKinsey consultants gather on assignments around the world.

THE McKINSEY WORLDVIEW

Many of McKinsey's partners are pioneering new views on management, organization, and strategy

THE HORIZONTAL ORGANIZATION

Provides a new framework for the 21st century corporation. Advocates a flatter, more horizontal, and cross-functional structure over the traditional vertical, hierarchical organization

HIGH-PERFORMANCE TEAMS

Research into successful teams led to guidelines for making them effective and productive. A key finding: Provide specific performance challenges critical to the company's overall goals.

CORE PROCESS REDESIGN

McKinsey's version of reengineering, today's hottest management concept, urges a radical rethinking of the core processes that deliver value to customers. The goal: To gain major, rather than incremental, improvements in performance.

CROSS-BORDER ALLIANCES

Strategic alliances among companies in different countries is hardly new. But McKinsey is writing the rules for what makes for successful joint ventures. One finding: Alliances are most effective for moving into related businesses or new geographic markets.

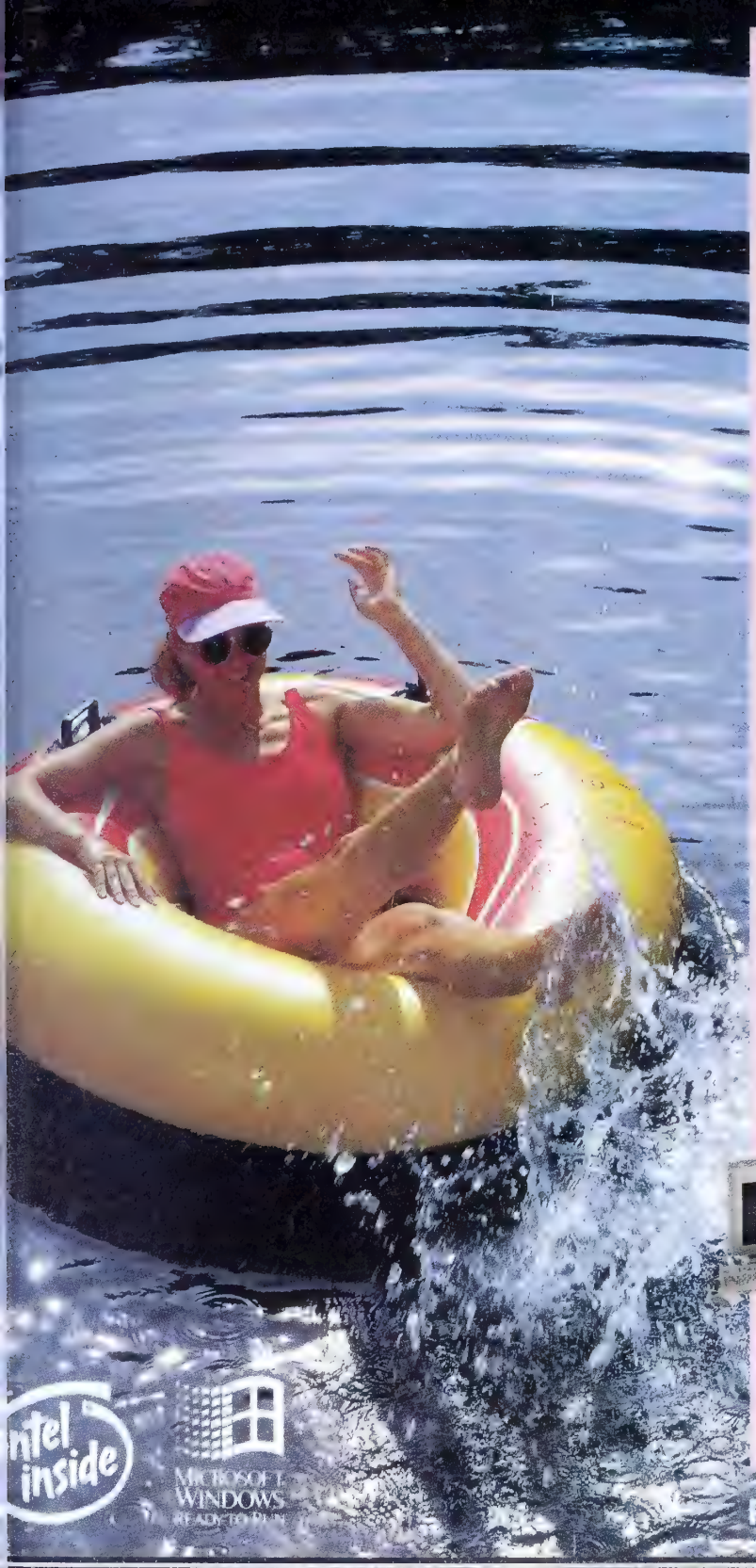
Gluck, 58, will step down managing director next J when, many insiders belie McKinsey may well elect first non-American partner head the firm. Among the fr runners: Christian Caspar Scandinavia, Lukas Mühlem in Switzerland, Norman San in London, and Herb Henzle Germany. Gluck and other p ners declined to be intervie for this article.

GRAND OLD MAN. Whoever the top job, the challenge be to preserve McKinsey's p nership system while promoting growth. With re nues up 14% last year, McKi outbills every other managem advice-giving firm in the w except Andersen Consulting, cording to *Consultants News* industry newsletter. Yet Mc sey's revenues per professi total $387,000. That's more t triple Andersen's average, cause so much of McKins consulting is at the top level management, where assignm are more lucrative.

The tone of the place has been set by Marvin Bower, legendary spiritual leader of firm. As managing director f 1950 to 1967, he developed m of McKinsey's key policies. Harvard-trained lawyer bro the professional standards top-flight law firm to man ment consulting, insisting the client always come first. calling the state of the indus when he joined McKinse 1933, Bower says that "at time, management consul wasn't even called that. It called management engineeri

Golub at American Exp calls Bower, now 90, "one of finest leaders in American business He led that firm according to a s values, and it was the principle of u values to help shape and guide an or ization that was probably the most portant thing I took away."

Those values continue to unite firm's 58 offices around the world, run by a Master-of-the-Universe t who combines business acumen wit cial charm or political savvy. In Cl land, Managing Director Jim Ben was educated at Cornell Univers earned his law degree from Harv University, and married a Stuttgart let dancer. In Düsseldorf, senior p ner Herbert Henzler is so politically nected that some McKinsey a



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believe he could some day become Chancellor of Germany.

To become a McKinseyite, one must pass through a fine screen. Some 275 to 300 of the firm's 542 hires last year were recently minted MBAs from such top schools as Harvard, Wharton, Northwestern, and Stanford. To get the very best, McKinsey routinely dangles the highest starting-pay packages in MBA recruiting of any management consulting firm, investment bank, or corporation.

The interview process is grueling and intense. In a series of sessions, candidates are asked to analyze and provide solutions off-the-cuff to brief business problems outlined by McKinsey consultants. On McKinsey's candidate-evaluation forms, they're assessed on everything from their "ability to synthesize" and solve problems with "clear, logical reasoning" to their "personal presence" and "potential client impact." Each candidate is rated on a scale of 1 to 10. One to five is death, meaning the candidate, in the firm's words, "lacks McKinsey's intrinsic qualities."

UP OR OUT. For those with the right stuff, McKinsey offers a business career that may well be unique today: an orderly progression with preset steps from associate to principal and, finally, director over a 12-year period. Along the way, the firm is constantly winnowing staff into an ever more exclusive club, paring down the numbers of people who make it to director or senior partner.

All along, it's up or out: If you're not promotable to the next level, you're gently asked to leave the firm. Only one in five associates becomes a principal, or junior partner, in the first six years. Only half of those who become principals end up as directors. The financial rewards for survivors are generous: Directors earn as much as $2 million a year in salary and bonus, and all partners receive equity in the firm.

McKinsey training is comprehensive and constant. In the first year, every associate is put through a two-week introductory training program that provides the basic McKinsey tools for problem-solving and analysis. There are also communications-skills workshops, team-leadership training seminars, and client-relationship workshops throughout an associate's first five years.

Besides educating, the training programs offer a prime opportunity to do a little global networking. "In any class, you'll sit next to an Italian, a German, an American, and a Spaniard," says Roger Parry, an alum at Aegis Group PLC in London, who was with McKinsey from 1985 to 1988. "So if you're later sitting in an office in London and want to know what's going on in Caracas, you simply call up the office and inevitably talk to someone you met in a training session or an assignment."

At McKinsey, international experiences are not just left to random socializing. Global teams of consultants are commonly assembled for corporate assignments. Nearly two dozen of McKinsey's Cleveland-based consultants, for instance, spent from 4 to 18 months working on project teams in a dozen different nations, from Australia to Britain. Another 10 consultants in Cleveland are natives of other countries, including the former Soviet Union and El Salvador.

Wherever they are stationed, the firm's professionals continually tap into the expertise of colleagues via an extensive information network. A *Knowledge Resource Directory* provides an online guide to which consultant knows what—whether that person is based in Prague or Taipei. And a special database sorts and stores the knowledge gained by consultants from their projects around the globe.

LONG DAYS. The most valuable training, of course, is on the job. "At McKinsey you're trained to be a CEO," says C. Robert Kidder, chairman and CEO of Duracell International. "You always have smart people challenging you. And at very young age, you're trying to convince older, more experienced people to change their companies even though you don't know as much about the business as they do."

Employees put in 12- to 14-hour days and are expected to sometimes work weekends and occasionally even through the night. "It shouldn't surprise anybody that McKinsey has so many young bright people, because if they weren't young they wouldn't be able to do the work," says William B. Ellis, a former partner who is now chairman of Northeast Utilities. "It was very, very hard running."

Most of those long hours are spent in teams where the heavy lifting is done by young, inexperienced associates guided by a principal and a director responsible for the overall quality of the assignment. Increasingly, McKinsey consultants work directly in teams side by side with corporate managers and executives.

In the current assignment for ITT, for example, a pair of McKinsey consultants has been placed in a team with six or seven ITT managers at each of the company's nine corporate and divisional

McKINSEY & CO. AT A GLANCE

1992 REVENUES
$1.2 billion
U.S. 40%
Non-U.S. 60%

PROFESSIONALS
3,100
Revenues per
$387,000

OFFICES
58
ALUMNI
3,500
FOUNDED
1926

ANNUAL PAY
Associates: up to $225,000
Principals: up to $700,000
Directors: up to $2 million

CURRENT OR RECENT ASSIGNMENTS

EASTMAN KODAK Hired at board's request, presented strategic study of options for restructuring and urged sell-off of company's chemical operations.

ITT Analyzing over-head at nine corporate and divisional headquarters. Expects savings of $90 million from greater efficiencies and layoffs.

FRITO-LAY Study of long-term strategy led to dismissal of nearly one-third of corporate headquarters staff and a reorganization of the company.

RJR NABISCO Analysis of how consumer-products company could better use information technology to reshape its business.

CBS Conducted a strategic review of broadcast network's structure, operations, and finances.

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headquarters. "It combines the best of all worlds," says Robert A. Bowman, chief financial officer of ITT. "McKinsey is there to challenge the status quo with 'what if' questions, and the employees are there to counteract that with the real world and the inside lore of the company."

No doubt, McKinsey's consultants are being greeted with some skepticism—as most of their brethren are. But at a time of rapid change, when competitive pressures appear to have reached a new high, more companies than ever appear willing to let outsiders in for a cold, hard look at the way they do business.

As observers watch the goings-on at IBM, Westinghouse, American Express, and other giant corporations now headed by McKinsey's alums, they can expect that—and more. Westinghouse's Jo for one, hints strongly that he will i new people into the company. "It's strictly from the inside," Jordan "Like a lot of old-line companies, probably need some new blood."

Don't be surprised if some of new blood is Type M, for McKinse

By John A. Byrne in New York, bureau reports

THE ALUMNI CLUB TO END ALL ALUMNI CLUBS

Whether they stay for just a couple of years or more than a decade, nobody ever really leaves McKinsey & Co. It's just one of those places, ex-McKinseyites say, that leaves an indelible imprint on people and their careers. Enduring friendships are commonly forged. Business values are etched. And above all, the connections last forever.

That's no accident. McKinsey nurtures its network of high-powered alumni in ways that the finest universities would be hard-pressed to duplicate. Indeed, many alums and competitors believe that a good deal of McKinsey's clout in the marketplace derives from the firm's well-cultivated alumni network.

Consider the careers of IBM's Louis V. Gerstner Jr. and Westinghouse Electric Corp.'s Michael H. Jordan. Both earned their stripes at McKinsey in the late 1960s and 1970s. Both left the firm to work for McKinsey clients, Gerstner at American Express and Jordan at PepsiCo. Both alums not only hired their old firm to do consulting studies but also turned to McKinsey for executives. "It's still a bit of a fraternity," says Jordan, who worked at the firm from 1964 to 1974. "A lot of my close friends are people I worked with at McKinsey."

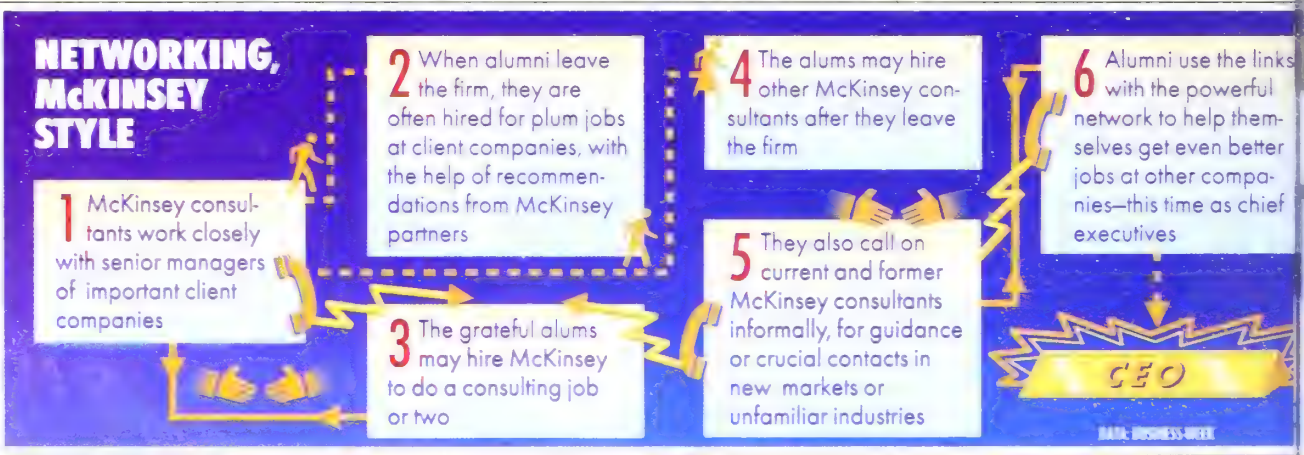
The backbone of the McKinsey network is the firm's alumni directory. It lists the work and home addresses and phone numbers for 3,500 ex-McKinseyites and is more up-to-date than the alumni rosters at Princeton or Harvard. It's "an invaluable resource," says Peter A. Kreisky, a McKinsey alum now a vice-president at Mercer Management Consulting Inc. He often queries alums before starting a project in an unfamiliar industry. "I know less than 25% of the people in the directory, but 80% to 90% will pick up their phone or respond to a letter," he says.

Unlike the alumni directories that exist for other companies, such as Procter & Gamble Co., McKinsey's isn't an underground publication: The firm foots the bill. In addition, it sponsors two alumni events each year in New York: a cocktail party at the Yale Club on the first Monday in December and a luncheon at the Harvard Club every spring. There are also a spate of regional and local alumni gatherings.

NO HARD FEELINGS. Although primarily intended for clients and current staff, alums also receive the *McKinsey Quarterly*, a journal on the latest thinking by the firm's consultants, and *McKinsey Press Summary*, a monthly distillation of articles written by McKinsey consultants and press clippings that mention the firm or its allu

McKinsey plays down the comm cial value of the network, but it ol ously plays an important role in ke ing the firm ahead of its competit "McKinsey gets a very large portio business from its alumni," says con tant Kreisky. In fact, the system wo so well that other firms, including thur D. Little Inc., have begun mim ing it. Last year, Little began financ reunions for former employees.

The alumni network is hardly a of embittered casualties of the fir up-or-out policy. "McKinsey doe



very good psychological job of h dling people," says James M. Mc mick, president of First Manhat Consulting Group and an alum. " know it's only one in five who m junior partner, so you don't feel t bad." It helps, too, that McKinsey p ners assist colleagues in job search

When an alumnus is up for a position, of course, a couple of McK sey references often go a long way clinch the position—or to lose it. "T network works throughout your bu ness career," says one ex-McKins man. "If you get on the wrong side that, it's very easy for McKinsey p ple to damn you with faint praise."

By John A. Byrne in New York, u Gary McWilliams in Boston

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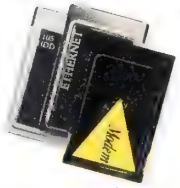

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ANHEUSER-BUSCH SAYS *SKOAL, SALUD, PROSIT*

As U.S. sales growth slows, it's in hot pursuit of markets abroa

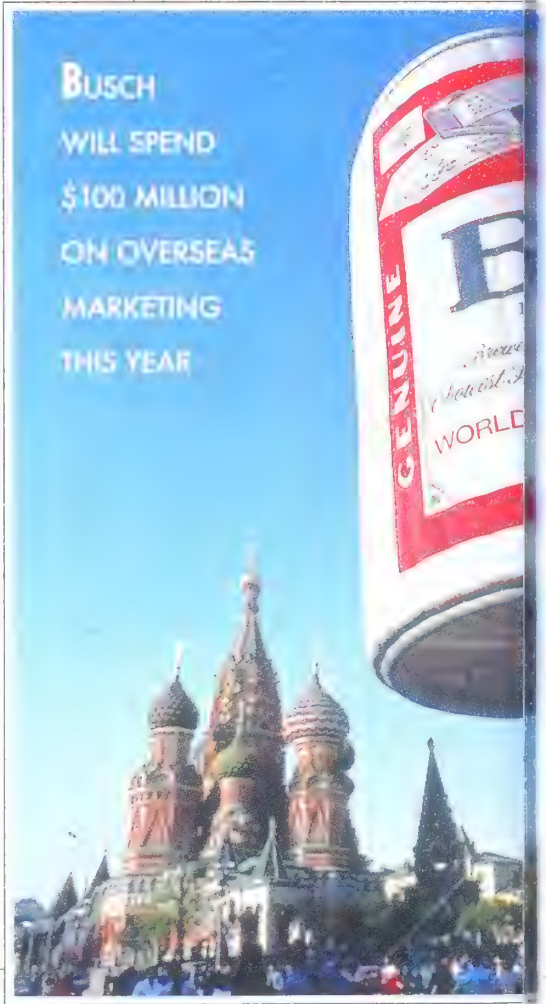
It's unlikely the citizens of the small Czech town of Ceské Budějovic have ever received such attention. Trees are being planted along main avenues. And a new cultural center recently opened. Who's footing the bill for these projects? The benefactor is none other than Anheuser-Busch Cos. It wants the support of the people of Ceské Budějovic in its battle to buy a stake in the local brewery, which makes Budweiser Budvar—no relation to the St. Louis-based giant.

Why such passion for a national treasure that produces just 500,000 barrels a year—the equivalent of two days' output for the world's biggest brewer? There's a good chance the government-owned brewery will be partially privatized in October. Busch began using the Budweiser name in the 19th century to give its beer a European cachet. And if Busch ends up owning a third of the business, as it hopes, then it can finally settle the nasty trademark battle over the Czech Budweiser brand that has blocked the brewing behemoth from pushing its beer in many markets around the world.

The search for new markets has never been as important to Busch as it is now. Even though Busch controls almost 43% of the U. S. beer market, its domestic sales growth is slowing dramatically. Analyst Emanuel Goldman of Paine-Webber Inc. estimates that Busch's profits will grow less than 1% this year, to $1 billion, as sales rise by a mere 2%, to $11.6 billion (chart).

PARCHED. That's forcing the brewer to tap into thirstier regions abroad. Thanks to a beefed-up marketing campaign and a flurry of new licensing agreements with foreign brewers, Busch is hoping to pand Budweiser sales from Russ Japan. More significantly, Busch recognizes that Yankee beers won' everywhere overseas. So it is ta equity stakes in foreign brewers t pand its international presence (ta The goal is to transform the int tional brewing operation into the pany's second-biggest profit m ahead of its food business that inc Campbell Taggart baked goods an gle Snacks.

Going global isn't a new noti Busch. But until recently, the co ny's foreign sales push had been la dependent on exports and a handf licensing agreements that allowed



companies to brew market Budweiser. But keting and distribution s varied widely over- . And Budweiser had d success. "The world not waiting for an rican beer," says John urnell, who is chair- of Busch's internation- erations.

owadays, there's far urgency to succeed d. Not only is its core beer market flat, but company's diversifica- strategy is faltering. ating profits at the unit fell 21% last year, to $75 mil- And while the entertainment di- n, which includes Sea World and h Gardens, saw its profits rise 22%, 5 million, that's still below 1990's .

TING CHANCE. Busch now is level- normous firepower at foreign mar- This year alone, the company will l $100 million—47% more than what ent in 1992—on marketing Budwei- verseas. Busch is gambling that it tap the growing popularity of rican culture in many regions. thing American in Asia turns to gold," insists Keene Addison, manager of a Hong Kong-based chain of Chicago-style theme restaurants, Dan Ryan's. To gain additional attention, Busch is considering sponsoring British soccer and Japanese baseball teams.

The centerpiece of Busch's international foray, however, is the partnerships it's forming with foreign breweries. Consider its close business ties with Japan's Kirin Brewery Co., the world's fourth-largest brewer. A year ago, Kirin Chairman Hideyo Motoyama and Busch Chairman August A. Busch III met in Hawaii to discuss their broad strategies. In the end, they agreed to form a joint venture to market Budweiser in Japan, which will likely be an uphill fight. Beginning this month, with Kirin's help, Busch plans to create its own sales force to learn the tricky distribution system in Japan. There's also speculation that Busch may buy a stake in Kirin, and Kirin and Busch may collaborate in markets elsewhere in Asia.

Busch's small stake in China's Tsingtao Brewery also may be a launching pad for bigger things. Beer consumption in China rose 14% last year, making it the fastest-growing beer market in the world. Down the road, Tsingtao will likely brew Budweiser locally to help its U. S. partner avoid steep duties on imported beers. In Mexico, Busch acquired a 17.7% stake in Grupo Modelo, which brews Corona, for $477 million. The company wants to expand its ownership to nearly 50%.

Of course, the company's latest foreign push won't be all beer and skittles. Some of Busch's new foreign partners could grow leery of the arrangement if Budweiser sales start taking off at the expense of their own brews. "Being the world's biggest brewer sometimes frightens people off," cautions Brian F. Baldock, deputy chairman of Guinness PLC, which brews Budweiser in Ireland. And then there's a more immediate threat: archrival Miller Brewing Co. Miller is going all out to establish its own international presence. Now headed by former Busch senior marketing executive John N. MacDonough, Miller has taken a 20% holding in Canada's largest brewer, Molson Breweries. And its parent, Philip Morris Cos., has bought a 7.9% stake in Mexico's No. 2 brewery, FEMSA.

Profits from Busch's foreign beer operation are expected to climb 20% this year, to $30 million, a fraction of what the entire company is likely to make. But it's a start. And who knows? If the residents of Ceské Budějovic warm to Busch, there's no telling how far that upstart Budweiser could go.

By Richard A. Melcher in St. Louis, with Julie Flynn in London, Robert Neff in Tokyo, and bureau reports

STRATEGIES

OPERATING ROOM MISHAP

A "brilliant idea" led to Medical Care America. So what happened?

When Medical Care International Inc. merged with Critical Care America Inc. last September, the new company seemed tailor-made for the increasingly competitive health-care market. By combining Medical Care's outpatient surgery centers with Critical Care's home-infusion business, the company would be a virtual hospital without walls. That, in turn, would allow the newly rechristened Medical Care America Inc. to profit handsomely from the rising demand for low-cost outpatient services. All in all, it "was an incredibly brilliant idea," says Patrick S. Smith, the former CEO of Critical Care who served for a while as chairman of Medical Care America.

As it turned out, though, the idea was one thing, the result quite another. Unable to keep costs—and prices—in check and slow to aggressively market its services, Medical Care has been losing business to nimbler, lower-priced rivals. The upshot: Analyst Erik D. Wiberg of Hambrecht & Quist Inc. estimates Medical Care's 1993 profits could tumble 27%, to $51 million, as revenues rise by 6%, to $643 million. At the same time, Medical Care's stock price—54¼ at the time of the merger on Sept. 9, 1992—has slid to about 17. And a group of angry shareholders has filed a lawsuit against Medical Care, alleging that the companies concealed many of their problems to make sure that the merger went through. Medical Care America CEO Donald E. Steen denies the charge.

Many of the company's woes stem from its Critical Care subsidiary, which accounts for about a third of total revenues. The unit supplies outpatients with the equipment and training necessary to administer their own intravenous drugs or nutrients at home. During the 1980s, Critical Care, based in Westborough, Mass., thrived by providing complex treatments, such as posttransplant

therapy and specialized blood transfusions. Cost wasn't an issue. After all, traditional indemnity insurers never seemed to question the company's prices.

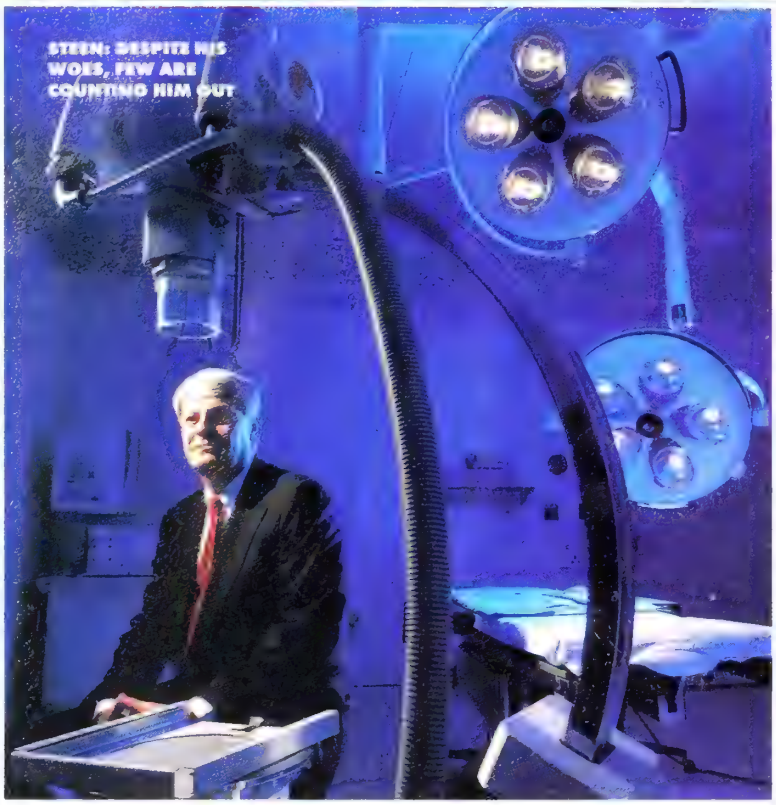
Now, however, the health market is increasingly dominated by managed-care networks, such as health maintenance organizations, whose profit margins depend on low costs. Not surprisingly, many HMOs passed over Critical Care, where analyst John R. Runningen of Robinson-Humphrey Co. says prices were as much as 26% higher than at such rivals as Northbrook (Ill.)-based Caremark Homecare and Home Nutritional Services Inc. in Parsippany, N. J.

Insiders say Smith, the former CEO, was slow to grasp the increasingly competitive nature of the industry. Smith became chairman of the new company after the merger. But last November, the board removed him after the depth of Critical Care's difficulties became apparent. Smith, who denies he was responsible for Critical Care's problems, remains a director.

Just how badly off Critical Care was became painfully apparent less than three weeks after the merger. That's when Steen announced that third-quarter profits before merger-related charges would be flat at $16.7 million, far below the 30% rise most analysts expected. Steen blames the surprise on Critical Care's poor internal reporting and slow payments from insurers. But the 15 shareholders who have sued Medical Care charge Critical Care's problems were so severe that managers had to have known about them. Analysts don't think the suit poses a long-term problem because no big institutional shareholders have joined the legal challenge.

Despite Medical Care's faltering first year, Steen vows a resurgence. And few in the industry are about to count him out. An accountant who founded Medical Care in 1981, the 46-year-old Steen battled back after another disappointing merger in 1984. That deal, with Surgicare Corp., was also supposed to produce rapid profit growth. Instead, the company racked up millions in losses after expanding too aggressively. Steen ended up closing money-losing surgical centers while acquiring more profitable ones. Prior to his latest merger, Medical Care was back on top, with its earnings up 40%, to $64 million, in 1991.

This time around, Steen is focusing on costs. He has trimmed Critical Care's staff by 20%, or 100 jobs, and has taken a hard look at costly medical gear. Earlier this year, he scrapped a state-of-the-art pump used in antibiotic treatments and replaced it with a far simpler model that needed less servicing. The result: The company cut its costs to $3 a day per patient for this procedure, from $30, without affecting the quality of care.



MEDICAL CARE'S TURNAROUND TREATMENT

PRICING Slashing costs at its Critical Care subsidiary to bring pricing in line with competitors. Cutting the prices on home-infusion services by 50% this year.

MARKETING Steps up marketing of home infusion directly to managed-care customers, such as HMOs. Roughly 25% of Critical Care's marketing staff is pursuing managed-care groups. Also created a 10-person staff to sell its surgical services.

SERVICES Longer term, company intends to expand services at surgical centers. Medical Care is already building more elaborate recovery rooms at some facilities to allow for more complex surgeries.

DATA BUSINESS WEEK

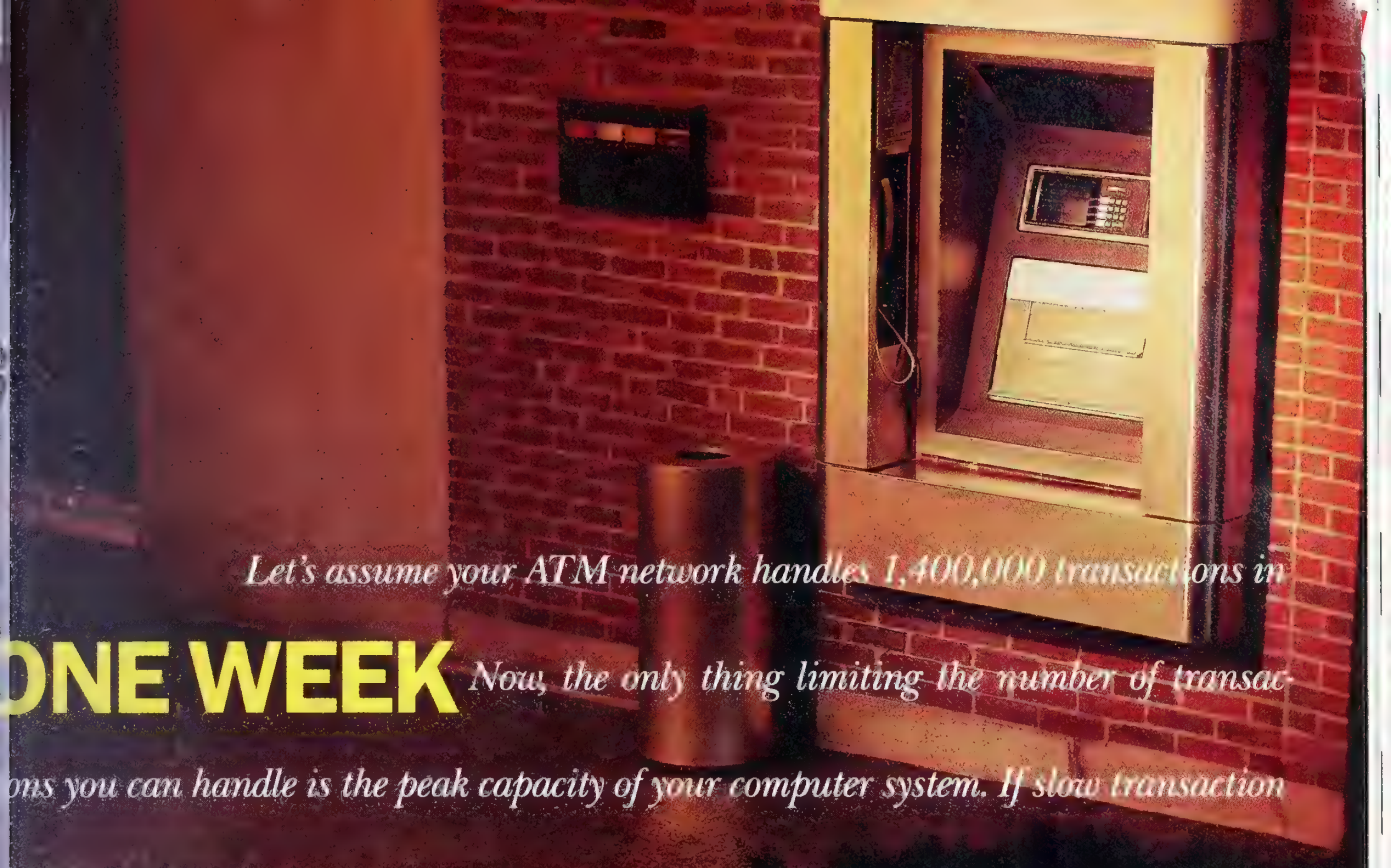
Ultimately, Steen
to save $20 milli
$25 million over the
two years with
cost-cutting efforts.

The cuts should
able Medical Car
start bringing pric
line with rivals'. In
Critical Care is al
discounting its pric
50%. Still, Medical
will need more
just competitive pr
to bring in pati
That's why Steen
beefed up its effor
market Critical C
services to managed
groups. Critical
wasn't even among
bidders for most
aged-care contracts
fall. Now, says S
"we may not win
bid, but at least
beginning to show
finalists." These
15% of the compa
business comes
managed-care group
8% a year ago.

MORE DEMAND. Ste
betting that mark
could also boost bus
at Medical Care's
surgery centers, w
account for 66% o
company's revenues.
surgical centers, too
being squeezed by
aged-care customers
competitors. Among
challengers: hosp
that are opening o
tient surgery ward
April, he created
person staff to market surgical ser
to managed-care groups. In the
the company relied on local admini
tors to promote the centers in
spare time. Longer term, Steen hop
expand services at the surgery cen
He is already building elaborate re
ery rooms at some facilities to allo
more complex and expensive operat
such as hysterectomies.

Most analysts believe Steen is sl
getting the company back on t
They also point out that demand
less-expensive outpatient services
only rise after the Clinton Admini
tion's health-care reform package is
veiled. Still, turnarounds take time.
Steen will have to produce more
dence to convince shareholders that
merger was indeed such a brilliant

By Stephanie Anderson Forest in D



Let's assume your ATM network handles 1,400,000 transactions in

ONE WEEK *Now, the only thing limiting the number of transac-*

ons you can handle is the peak capacity of your computer system. If slow transaction

mes are causing long lines during peak hours you could be losing up to

350,000 TRANSACTIONS *each week.*

o speed up the average transaction time and improve customer satisfaction,

ll on EMC's disk storage solutions. They allow mainframe and midrange computer

stems to dramatically increase performance without costly CPU upgrades. Let's

y you realize a 25% performance gain. And those 350,000 transactions don't

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SEMICONDUCTORS

TEMPLE'S NEW THYRISTOR AND ONE THAT IT CAN REPLACE

POWER SURGE FOR A MONSTER CHIP

Demand for Harris Corp.'s electricity-saving circuits should soar

For two decades, Victor A. K. Temple has labored in relative obscurity, pursuing a semiconductor technology so arcane and unglamorous that it even turns off most silicon engineers. No wonder. The chips that fascinate him are far from the cutting edge and account for just 0.1% of all chip sales. Their name—monster power ICs—is catchy but misleading. They aren't superstar number-crunchers but integrated circuits designed to modify, switch, and otherwise handle heavy-duty electrical currents—up to 1,200 volts—that would fry ordinary chips.

Finally, diligence is paying off for Temple, who heads Harris Corp.'s Power Research & Development operation in Latham, N.Y. The radically different power chip he patented last year has been cited by *R&D Magazine*'s panel of experts as one of 1993's 100 most significant new products. And a financial dividend seems guaranteed, too. Market researcher Dataquest Inc. is predicting a surge in demand for monster chips, from sales of roughly $70 million worldwide in 1992 to $335 million by 1997.

That increase will be sparked partly by recent energy-saving rules and incentives from government agencies. By incorporating power chips that use less electricity, appliance makers are already developing more efficient air conditioners, refrigerators, and washers. Factory equipment, aircraft, ships, and submarines may benefit next. Electric utilities count on power chips to make existing facilities more efficient and thus help meet growing demand. And sales of the chips could soar in 1998, when California will require that 2% of the cars sold there be pollution-free. They'll probably have electric motors, and Harris thinks its chips will help produce snappier acceleration, longer range, and faster battery recharges.

SAVING GRACE. What these uses have in common are electric motors. The Edison Electric Institute says the U. S. has 1 billion motors, which gulp half of America's electricity. Much of that is wasted, because most motors now run at one speed. The solution is to vary the motor speeds with power chips. Motors that run only as fast as they need to "can reduce the electric bill by up to 40%," says Daniel Artusi, director of power products at Motorola Inc.'s Semiconductor Products Sector in Phoenix. If all single-speed motors were variable-speed mod... he adds, "the savings w... be equal to nearly 1%... gross domestic product."

The design that accou... for most current monster ... sales is IGBT (insulated-g... bipolar transistor). Altho... the chip was developed in... U. S. in the 1980s, the m... ket has been dominated ... Toshiba and Hitachi in Ja... and Thomson and Siemen... Europe, countries wh... electricity costs are so h... that demand for energy-... cient products is brisk. W... U. S. chipmakers focused ... big-ticket industrial mot... says Harris' Temple, "the ... anese used IGBTs to go a... mass-market things, like ... conditioners." Their pro... tion volumes took off, ... their power-chip prices fe...

Then late last year, Ha... introduced a new power ... called the MOS-controlled ... ristor, or MCT. It will put ... U. S. back on top, Temple ... serts, because of its hig... current-handling capacity—more ... double that of the same size IGBT—... half the electrical loss. A different ... proach to the internal structure of ... chip accounts for these gains. The ... MCTs don't switch on and off as fas... IGBTs, but a new model will, Tem... claims, perhaps by yearend. Switc... speed is crucial for precisely regula... variable-speed motors.

Motorola's An... retorts that the M... advantages aren't ... big as Temple m... tains. "We've loo... carefully at MCT t... nology," he says, ... decided to stick ... IGBT. Still, Harris ... powerful allies. O... the Electric Power ... search Institute in ... Alto, Calif., which ... research for the u... industry. EPRI fig... that MCT chips c... replace practically ... ery type of sw... used by its mem... companies. "All o... power-saving R&D ... grams for the ... five years are b... on these devices," ... Harshad Mehta, E... manager of power...

THE BROAD APPEAL OF MCTs

A new breed of chip shows promise in the transportation and utility industries:

PLANES

- May make it possible to replace bulky hydraulic systems on landing gears with more compact electronic systems

ELECTRIC CARS

- May boost mileage
- Could speed up and prolong battery charges

ELECTRIC UTILITIES

- Could instantly reroute power to avert blackouts
- Double the capacity of high-voltage distribution lines

DATA: HARRIS CORP., U.S. AIR FORCE, ELECTRIC POWER RESEARCH INSTITUTE

Yep. Flatter than
yesterday's root beer.

No. Everyone's fine.

In weather like this?

Sooner is better.

Ten minutes flat.
Very funny.

When you want the security of a cellular phone, you need the quality of a Motorola.

MOTOROLA

tems technology. Moreover, he says ultrahigh-power MCTs—now in th search stage at Harris, with fu from EPRI—will simplify the conve of high-tension lines from a.c. to which lets the same lines carry as much power. These chips could help avert blackouts by shifting ele ity from one regional grid to anoth

Even the U.S. Air Force likes chips. Jet fighters are stuffed wi much electronics that heat buildup big problem. The heat can't be v without affecting performance an creasing the plane's signature on my radar, "so it is dumped into the says William U. Borger, chief of space power research at Wright Pa son Air Force Base in Dayton. drawback is that "if you want to the electronics cool enough to lan plane, you often come in with hun of pounds of fuel" that otherwise have been used for a longer flight. their lower heat loss, MCT chips ma leviate that problem.

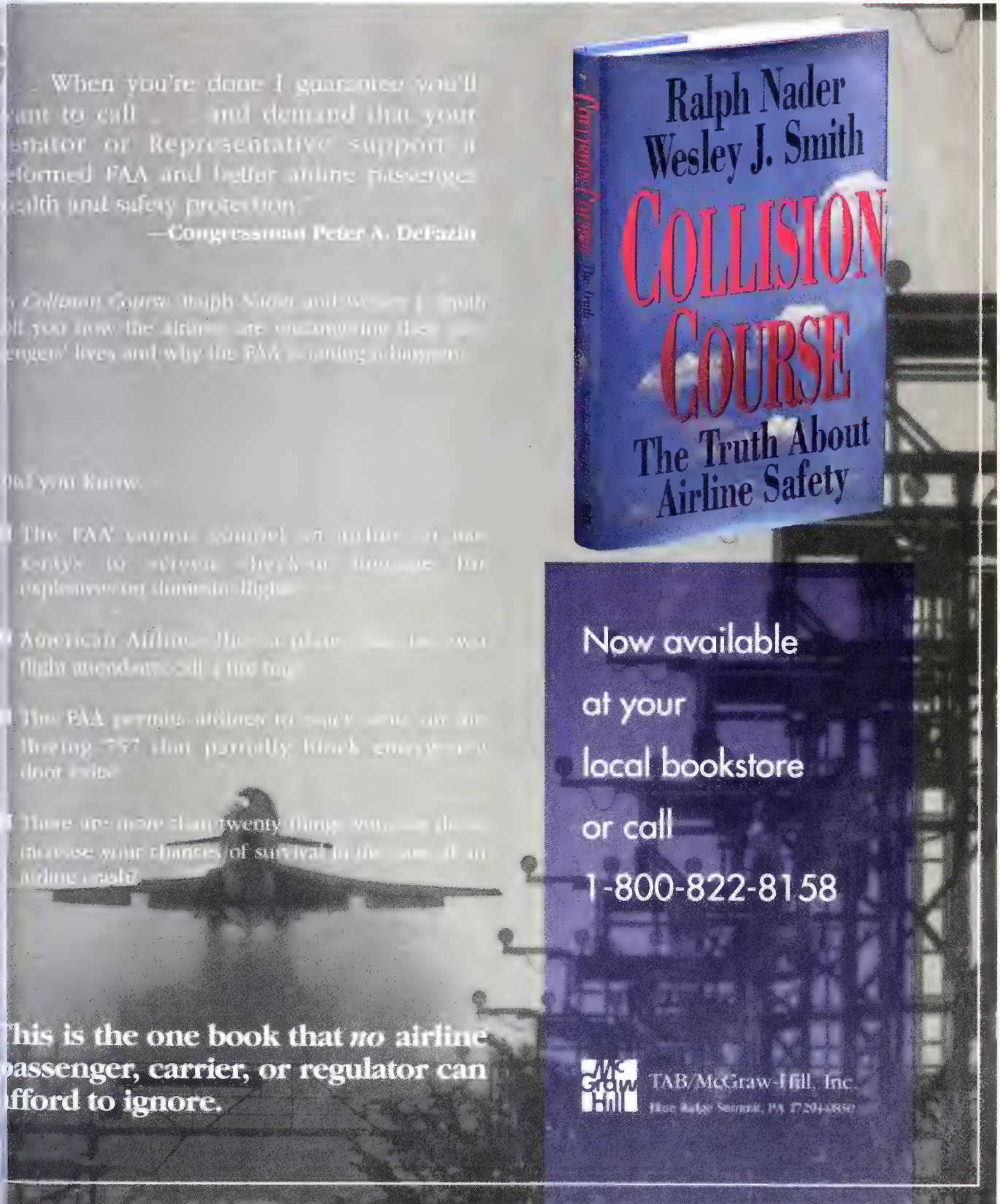
TOTAL CONVERSION. The Air Force another advantage. Using small, equipped electric motors instead o draulic systems to power such t as landing gears and wing flaps help trim a plane's weight by up to That could boost the speed and ma verability of both fighters and civ aircraft—which explains why Allied Inc.'s aerospace division has "conv completely to MCT" for airplane p systems, says chief scientist Robe Eckenfelder. And he expects the aerospace market to follow suit.

What the chips do for planes, may also do for electric cars. Vari speed motors under the hood migh viate the need for heavy transmiss MCT chips could also replace the old id-state controller on electric moto theory, that could extend the car's by saving up to half the 15% of an tric car's battery power that is lo heat because of resistance from the troller. John R. Wallace, director of tric vehicle development at Ford M Co., is skeptical about how big the age increase might be. But his g recently got its first MCT chips. A lab tests, he says, "they appear what they're supposed to do." If holds up in vehicle tests, he "they'll become our devices of choi

Temple isn't resting on his laur the meantime. He notes that cu MCT chips are suitable for only 20% of the markets Harris is ey He has plenty of new ideas for im ing his baby's power-handling ca ities. So even after 20 years, Te work may be just beginning.

By Otis Port in New

"If you fly, read this book . . .



This is the one book that *no* airline passenger, carrier, or regulator can afford to ignore.

One Of The World's Largest Airlines Wanted To Increase The Productivity Of Their Sales Force.

In today's competitive air wars, a more productive ground force can help an airline stay airborne. So, when one of our clients, a major airline, wanted to increase the productivity of their sales reps across the country, cellular service was a natural.

The challenge was how to coordinate the service for their reps in 110 different offices nationwide without giving our client a major administrative headache. We worked out a way to provide them the cellular service they need—with just one bill and one point of contact. Plus a convenient monthly management report.

So We Helped Them Open Some New Routes.

The airline selected BellSouth because we're a lot more than one company. We're a family of communications companies. From paging, cellular and information services to sophisticated telecommunications networks, we have the depth of resources required to meet your communications challenges today. And tomorrow.

That's why there's one airline that no longer thinks runways are the only place for its business to take off. Interstates can be pretty good, too. For information, call your BellSouth representative or 1-800-720-BELL.

Telecommunications
Information Services
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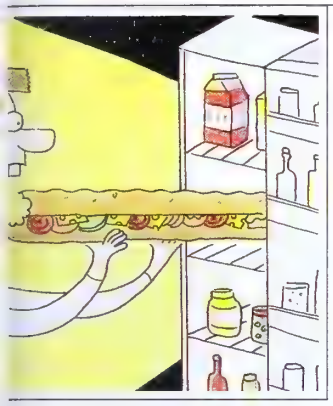
Everything You Expect From A Leader®

evelopments to Watch

BY PETER COY

OZONE LAYER WILL LOVE SE REFRIGERATORS



A thermos bottle the size of a refrigerator? That's pretty much what Owens-Corning Fiberglas Corp. has developed to help makers of refrigerators and freezers comply with federal requirements to trim energy consumption and eliminate chlorofluorocarbons by 1995. CFCs are used to blow bubbles in the plastic foam that insulates most fridges.

ens-Corning's new insulation, Aura, consists of fiber- mats sealed in steel vacuum panels. The Toledo compa- ys Aura can already meet the toughest targets being con- ed by the Energy Dept.—a 50% cut in energy con- tion by 1998 on top of a required 25% reduction this year. allows a refrigerator's walls to be slimmed down, ex- ng capacity by about 20% and leaving more room for favorite foot-long sandwiches. The first refrigerator using lue out next year. And since insulation can also keep hot hot, Aura may show up in more efficient ovens and heaters.

ED OF SCRAPING PAINT? TTLE CRUSHED ICE MIGHT HELP

ow an ice cube against a wall and it will shatter, perhaps nting the wall. But hurl a tiny shard of ice against a and something different and unexpected happens: It as a coating remover. That odd behavior of ice shards make them an excellent replacement for sandblasting ther abrasive methods in cleaning surfaces.

cording to research commissioned by the Canadian De- Research Establishment Pacific in the 1980s, the impact ice shard on a coated surface compresses the coating and the ice. The coating can then rebound so rapidly that it itself off from the surface, allowing the melted ice to it away. Ice Blast International Corp. in Victoria, B. C., ommercialized the technology in a low-pressure system an use as little as 20 gallons of water an hour, compared up to 60 gallons a minute for a high-pressure water to cover the same area. The shards, about ⅛-inch across, can remove burrs from metal surfaces. Ice Blast has l up with machine-tool builder Utica Enterprises Inc. elby Township, Mich., to use the process in deburring.

KING TOP-FLIGHT PLASTICS THE CHEAP

nmodity plastics are going upscale, thanks to new cata- sts that make high-quality polymers from cheap raw ials. Grain-size catalysts made from metals such as tita- cause molecules such as ethylene and octene to link up g chains. Ordinary catalysts, because they're haphazard- aped, produce chains of varying lengths and composi- —lower-grade plastics. The new catalyst, with a "sweet spot" of precise dimensions, produces highly regular polymers. Leaders in these so-called single-site catalysts include Dow Chemical, Exxon, Petrofina, and Mitsui Toatsu Chemicals.

New catalysts mean new market battles. On Sept. 8, Dow Chemical Co. announced Affinity, the first branded product made by its new process. Affinity is suited for sealants in flexible packaging and molded goods. Dow says it doesn't strain machinery, a traditional problem with highly regular polymers because they lack the "lubrication" supplied by short chains. With some tweaking, Dow says, its new catalyst should be able to form polymers made with such inexpensive ingredients as butene, hexene, and octene that will vie with expensive engineered polymers such as nylon and polyester.

CABINET-LEVEL CLOUT FOR TECHNOLOGY POLICY?

In his campaign, Bill Clinton promised to funnel hundreds of millions of federal dollars into technologies to help U. S. industry become more competitive. But so far, few policy initiatives have come out. Part of the problem, White House sources say, is the difficulty of coordinating policy between agencies, from the departments of Energy and Commerce to Defense and the National Science Foundation.

White House science adviser John H. Gibbons has a plan to tackle the problem. Under President Bush, a few initiatives—such as high-performance computing and advanced materials—were started by an interagency committee known as the Federal Coordinating Council for Science, Engineering, & Technology (FCCSET). But FCCSET usually couldn't affect individual agencies' programs. So Gibbons is proposing a more powerful, Cabinet-level National Science & Technology Council. It would replace FCCSET as well as the National Space Council and the National Critical Materials Council. Gibbons hopes that this new group, if approved by Clinton, will help get the Administration's technology policy on track.

RADAR THAT GATHERS NOTES FROM UNDERGROUND

There are several ways to find out what's underground. You can dig holes, but that's a lot of work. You can set off an explosion and study the seismic waves that reflect back up, but that's imprecise—best for very deep jobs such as finding oil. For many purposes, the preferred method for studying the shallow underground is radar. Systems made by Geophysical Survey Systems Inc. in North Salem, N. H., have been used to find storage tanks, to look for dangerous pockets of water or methane near mine shafts, to comb archeological sites, and to search for bodies.

Customers complained that the systems were complex to operate and heavy. So the company is making a semiautomatic version with a control unit weighing under 15 pounds, a third the weight of its predecessor. It's also one-third cheaper, at under $20,000. One drawback: Pulling the antenna along the ground produces only narrow slices of what lies below. There's still no software to combine the slices into 3-D images.

M. E. COHEN

ALL LIVELY ON THE MIDDLE EASTERN FRONT

Peace prospects are drawing dollars to Tel Aviv that could reach nearby markets

When the Berlin Wall came tumbling down in 1989, it touched off a sustained rally in European stocks. Well, the Israeli-Palestinian peace accord is shaping up to be just as consequential an event for the bourses of the Middle East, particularly in Israel.

Israeli stocks have climbed a dazzling 14% in the two weeks since word of the pact was announced (chart)—a stunning upturn for an equities market that sizzled for nearly three years but cooled this summer (BW—Aug. 9). True, trading volume remains small—a mere $150 million in shares changed hands on Sept. 5, and that was a record. But with peace prospects looking better than ever, an influx of overseas dollars should continue to propel Israeli stocks and may even spill over to other markets in the area—from the lively exchange in Istanbul to the sleepy bourse in Cairo, which has yet to benefit from peace euphoria. "With the agreement, it's possible Israel will finally make it as an emerging market and attract institutional investors, investment firms, and individual investors," says Dan Galai, managing director of Sigma PCM, a money management firm based in Tel Aviv.

There's good reason for such optimism. Because of worry over political instability, even the huge gains in 1991 and 1992 didn't bring foreign investors into the market. But that is changing fast. Israeli bankers say that within the past month, several leading Wall Street brokerages have opened trading accounts at Israeli firms. However, the recent rally took place without their help. Investors poured nearly $1 billion into the market during the week following the announcement—and little of that was foreign capital.

REGIONAL FUND? Up to now, foreign investment in Israeli companies has been accomplished almost exclusively through the nearly 60 issues of Israeli companies traded in the U. S. They include a number of widely followed high-tech companies such as Scitex Corp., ECI Telecom, and Lannett. But with a market capitalization of $40 billion—which is larger than the markets in Austria, Belgium, and even Spain—there is growing interest in investing directly in the Tel Aviv market. "We're planning to introduce a number of Israeli companies which trade exclusively in Tel Aviv to American investors later this year," says Howard Sterling, managing director of corporate finance at Oscar Gruss & Son Inc., a market maker in many Israeli shares. Last month, Lehman Brothers purchased $1.5 million worth of shares of Bank Leumi, in an indication of the growing foreign interest.

True, the market rally could evaporate if the talks collapse. But most experts are predicting that the conditions are favorable for a continued rally even if there are temporary setbacks in the peace process. "Unlike 1979, when Israel and Egypt signed a peace treaty," says Zeev Holtzman of Giza Ltd., a Tel Aviv investment bank, "the latest agreement finds the Israeli economy in the midst of a boom." And the accord would enhance the Israeli economy still further by trimming Israel's huge defense budget and reducing other war-imposed burdens. Even before the accord, economists were forecasting a return to rapid growth in 1994.

In the past week, just about every stock in the market has benefited from the rally. But Dov Gilboa, director of Bank Leumi's investment department, believes certain sectors—such as tourism, infrastructure, real estate, and hi-tech—are likely to reap the quickest benefits from peace. Holtzman foresees the establishment of a regional fund for stocks from Middle Eastern markets.

The Palestinians, meanwhile, have no stock market to raise capital for the private sector, which can be expected to boom. A World Bank report on the West Bank and Gaza Strip, due out soon, is expected to recommend, among other things, the establishment of a stock market in the areas to be governed by the Palestinians. Now there are only about 30 to 35 publicly held companies in the West Bank and Gaza

, and there is no market for their
s. Instead, they depend on bank
and direct investments from pri-
investors as the major sources of
tment capital.

he nascent Palestinian stock mar-
vere to look to a role model, it
t well turn to the Tel Aviv ex-
e and not to the Arab bourses in
and Amman. In contrast to the
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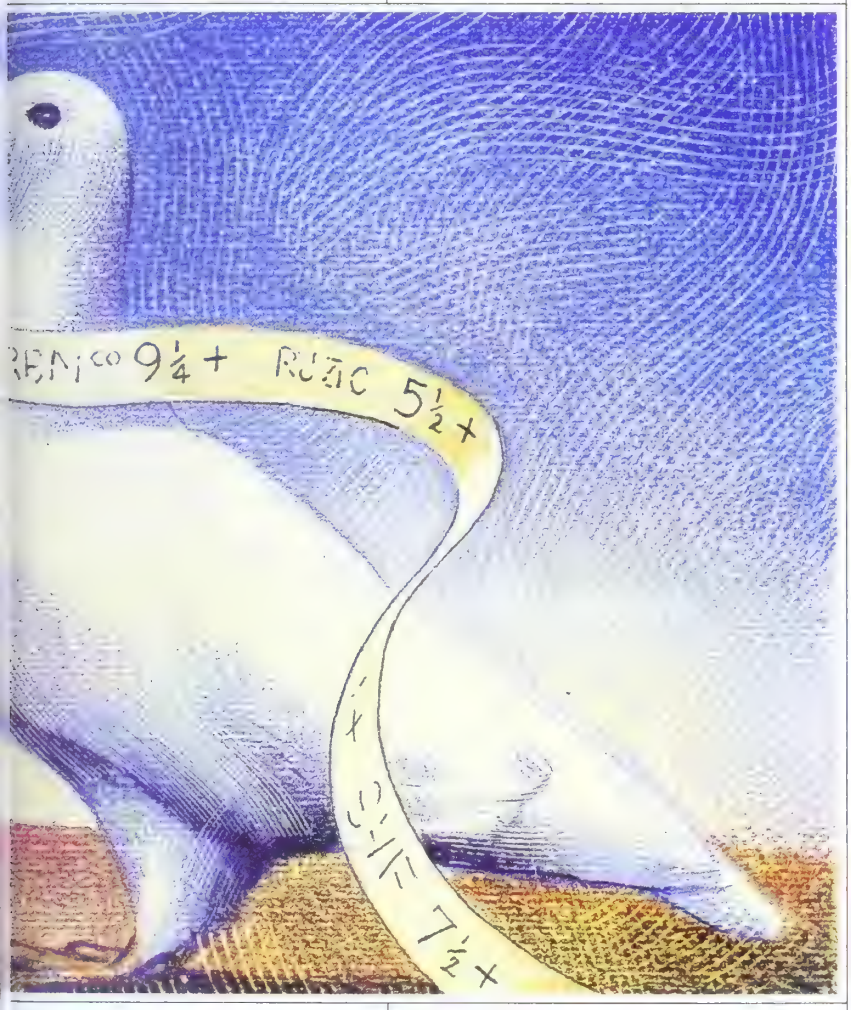

t into a basket, and rings a bell. A
n a narrow catwalk pulls up the
t and chalks the new price onto a
oard next to the company's name.
the exchange is stirring. Attract-
President Hosni Mubarak's shift
d a market-oriented economy, rich
ian expatriates and Gulf Arabs
placed billions of dollars in Egypt
past year. Adventurous Western
ors are also giving the country a
s look. While most of the money
one into short-term government
ties, some of it is finding its way
he stock exchange. An index com-
in Cairo by Kidder, Peabody &
Co. of 23 actively traded stocks is up 39% in 1993—a remarkable performance, considering the government is locked in a struggle with Islamic militants that has left about 130 people dead. "We feel that a new character has been pumped into the market," says Nassef Nazmy, one of the exchange's leading brokers.

Some 600 companies are listed on the Cairo exchange, but only about three dozen are actively traded. Many of these are state companies slated for privatization. The hottest stock is Suez Cement Co., whose price has doubled in the past year, to about $6. The Israeli-Palestinian peace talks have failed to have much impact on share prices in Egypt. The Kidder Peabody index has crept up only 2% since Aug. 17, according to Aladdin Saba, vice-president of the firm in Cairo. But Saba thinks that traders are being shortsighted and that the prospects for peace will eventually make the Egyptian market much more attractive.

Saba notes that Arab-Israeli peace "will defuse a lot of political uncertainties that people had about the area." Already shares of Misr Hotel Co.—which owns the Nile Hilton—have climbed some 10% in recent weeks, after falling sharply earlier in the year when militants began targeting tourists. Peace will also make it easier for the Egyptian government to move ahead with its privatization program—something that should further breathe life into the Egyptian market.

Portfolio managers may begin to hone in on Cairo as well as Tel Aviv. One of the boldest, J. Mark Mobius, president of Templeton Emerging Markets Fund Inc., has visited Cairo already. He says he is attracted to the Islamic world's preference for equities over debt, but he is holding off because of problems finding an Egyptian stock custodian.

With the exception of Istanbul's booming stock market, other Middle Eastern bourses have yet to match Israel's as a source of capital-raising. Amman has a small but active exchange, but the market participants are mainly Jordanians. Saudi Arabia has an active stock market with some 62 issues, but only Saudis and nationals of the Gulf Cooperation Council can trade there. One Riyadh-based banker says that a number of British and American investors have journeyed to Riyadh and Jeddah lately to explore the purchase of Saudi stocks as part of their Middle East portfolios. That can be done legally through Saudi nominees or trustees. Apparently, however, no one has yet taken the plunge.

PEACE PIPE. One other Mediterranean market likely to benefit from peace is the Istanbul Stock Exchange. "We're not exactly perched on the West Bank, but peace is going to have a general beneficial macroeconomic effect here," says Emre Yigit, head of research at Global Securities, Istanbul's largest brokerage. At $25 billion, Istanbul has the second-largest market cap in the region, and it is also one of the best-performing equity markets in the world this year: Its rise, adjusted for currency swings, has been about 125%.

Many of the 160 companies listed on the exchange do regional Mideast business, particularly large contractors such as Alarko and Enka. Such companies could reap huge dividends from the peace. Ankara may reactivate its moribund multibillion-dollar Peace Pipeline Project, designed to pipe enormous quantities of Turkish water to the parched Israeli, Syrian, Palestinian, and Jordanian farmlands. In the past, the lack of an Israel-Arab peace agreement made the project unrealizable.

Such once unimaginable economic developments are likely to proliferate once peace is achieved. And as peace euphoria spreads throughout the Middle East, this backwater of the investment world bids fair to become a veritable burning bush of opportunity.

By Neal Sandler in Jerusalem, Stanley Reed and Sarah Gauch in Cairo, and John Rossant in Rome

DEFENSE STOCKS ARE GOING GREAT GUNS

Military cuts have forced armsmakers to successfully slim down

The Great Defense Shakeout has cost hundreds of thousands of workers their jobs and pushed the states of California and Connecticut into recession. But Wall Street's view of what's left of the military-industrial complex is anything but gloomy. Because of consolidation and relentless cost-cutting, a more efficient military sector is emerging—and defense stocks have become the darling of investors, even as weapons makers idle more production lines.

Now, the Clinton Administration is giving the defense stocks even more firepower. In its first stem-to-stern review of U. S. military forces, the Pentagon has signaled that protecting critical defense technologies and easing the pain of downsizing for workers and communities will be elements of its industrial policy. The Clinton defense plan, unveiled on Sept. 1, is less drastic than some had feared. It amounts to "a soft-landing approach for defense," says PaineWebber Inc. analyst Jack Modzelewski.

The defense stocks' popularity is a dramatic turnaround from the late 1980s. Despite the Reagan-era military buildup, defense contractors' earnings were savaged by losses on fixed-price contracts. From 1985 to 1990, an index of defense stocks created by Modzelewski tumbled 23%, while the Standard & Poor's 500-stock index climbed 54%. But since 1991, Modzelewski's index has been an eye-popper, up 140% vs. 38% for the S&P 500. That's because profits climbed as managements shed their traditional obsession with amassing ever-fatter order books and focused instead on the bottom line. Contractors slashed investment and payroll and poured the money instead into bigger dividends, stock repurchases, paying down debt, and modest acquisitions.

Even Grumman Corp., which was reeling a few years ago, is looking smart. Earlier this year, it raised its dividend 20%—the first increase since 1985. Phil Friedman, who follows defense for Morgan Stanley & Co., thinks Grumman will increase earnings by 14% next year, and 17% in 1995. On Sept. 8, when the overall market fell, Grumman shot up nearly $2 a share, or 5.6%.

Some key defense contractors will walk off with real plums from Washington. The Administration's plan gives a green light for construction of a $1.8 billion Seawolf attack submarine at General Dynamics Corp.'s Electric Boat Div. in Groton, Conn. The Navy doesn't need another Seawolf, but it will order one anyway in order to keep the yard running until the turn of the century, when work can start on a more advanced sub. The move gave an added fillip to GD's stock, which is trading at close to its 52-week high of 98. The stock has rocketed over the past two years as management has sold off division after division and showered shareholders with the proceeds via stock repurchases and special dividends.

> A PaineWebber index of defense stocks is up 140% since 1991 vs. 38% for the S&P 500

The other clear winner is McDonnell Douglas Corp. The aerospace giant got a firm go-ahead for a new version of its F/A-18 Navy fighter-attack jet. And the Pentagon's acknowledgment of the need for more airlift capacity seemed to assure the future of McDonnell's C-17 Air Force transport jet, which has been plagued by delays and cost overr... McDonnell's stock is trading in the ... 80s, up from 34 a year ago. Analys... von Rumohr of Cowen & Co. thinks M... Donnell's stock price could reach ... over the next year, fueled by ple... cash flow, growth in earnings, and ... ahead on the C-17.

Although the Pentagon is paring ... orders for new ships, planes, and t... it will continue to extend the life o... isting weapons by adding new mis... avionics, and radar. That brightens ... prospects for defense-electronics co... nies, such as E-Systems, Loral, M... Marietta, and the Hughes Electr... subsidiary of General Motors, w... trades as GM Class H stock.

While there will be no big losers ... the Administration's new defense ... some companies—Lockheed Corp. in... ticular—came up a little bit short. ... company took a hit from the Penta... decision to stop buying its F-16 fig... next year. Speculation that the ... Force may stretch out purchase ... Lockheed's F-22 advanced tactical f... er didn't help, either. Still, the s... at 62, has been little changed in re... weeks.

BOTTOMING OUT. But how long can ... defense stock rally continue? Many ... lysts expect robust earnings growt... 10% or more for a couple of years ... while revenue growth is at best ... And some, including Wolfgang Dem... of Bankers Trust Co., think that vi... overall defense spending will cont... to shrink, the procurement and rese... budgets are beginning to bottom ... Demisch is bullish on the abilit... McDonnell Douglas, General Dynam... Raytheon, and Lockheed to cont... making money off a smaller defense ... Rebounding foreign sales and a m... favorable Pentagon attitude towar... quisitions should help keep defense s... prices moving up.

Some players, such as Raytheon ... and Rockwell International Corp., h... already diversified into comme... markets and plan further foray ... keep growing. But most of the m... contractors, haunted by failed m... into civilian markets when defe... spending tailed off in the 1970s, ... shunning diversification and stic... to their guns.

In the near term, most analy... expect their favorite defense st... (table) to shine even as overall ... fense spending falls. But cost-cutt... can boost profits only so far. To p... tinue to reward shareholders ... the longer term, these defense co... nies will have to devise new way ... build their revenues.

By Amy Borrus in Washin...

PROS' PICKS IN DEFENSE

Stock	Price	P-E ratio	Dividend yield
E-SYSTEMS	47½	13.8	2.3%
GENERAL DYNAMICS	95⅝	10.0	1.7
GENERAL MOTORS CL.H	33⅞	16.5	2.1
GRUMMAN	35½	9.5	3.4
LORAL	60¾	13.0	1.8
McDONNELL DOUGLAS	83¾	13.4	1.7
RAYTHEON	62⅞	12.8	2.2
ROCKWELL INTL.	35⅞	14.4	2.8

DATA: BW SURVEY OF ANALYSTS, BRIDGE INFORMATION SYSTEMS INC.

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BY GENE G. MARCIAL

THE SWEET MUSIC THAT'S PLAYING AT GAYLORD

Country music has boomed to more than a $3 billion business, accounting for some 16% of all record sales worldwide last year. Gaylord Entertainment, owner of two country-music television networks, as well as the Opryland Music Group and the vast Opryland theme parks and hotel, is on top of it all. Indeed, this relatively undiscovered Tennessee enterprise is developing into an entertainment giant a la Disney. So some investors have been buying up Gaylord, whose shares have risen to 48 from 37 in mid-April.

The company is trying to make shareholders happy in other ways, too. Lisbeth Barron, entertainment maven at New York investment firm S. G. Warburg, notes that because "Gaylord's top management has now come to recognize that it has to attend to improving shareholder value," it will split the stock two-for-one effective Sept. 13.

CABLE CATCH. One move Barron sees on the agenda is the sale of Gaylord's noncore operations, mainly the money-losing cable-TV systems, with 166,800 subscribers, and a profitable TV station in Seattle. She estimates that the cable systems, based primarily in Los Angeles and the Carolinas, are worth $440 million, or about $10.50 a share. Adjusted for taxes and debt, the sale would add 75¢ to earnings, she feels. The Seattle TV station could be sold for $90 million and could add about 7¢ a share to earnings, Barron says. She adds that several companies, including Hallmark Cards, which owns 2.5% of the cable systems, are keen on buying it. Another company said to be interested: Tele-Communications.

With the sale of such assets, Barron expects the stock to hit the mid-60s, (mid-30s postsplit). Considering Gaylord's estimated 30% growth rate next year, she says it's cheap compared with other entertainment outfits.

The cable systems Gaylord may sell are separate from the company's cable-network business, which includes Country Music Television (CMT), a 24-hour channel airing videos that is distributed free to 20 million subscribers, and the Nashville Network (TNN), with 57.4 million subscribers.

Gaylord is in the midst of expanding these networks in the U. S., Europe, and Asia. Barron expects CMT and TNN to account for 60% of 1993 earnings, 33% of cash flow, and 30% of revenues.

"Country music is starting to catch fire in Europe and in Asia," says Barron, who notes that CMT Europe is now transmitted via IntelSat to 320,000 cable homes in Britain—a 65% penetration of the cable households in that country. She expects CMT to be available next year in France, Germany, Israel, Italy, Singapore, and Spain. She sees Gaylord earning (pre-split) 88¢ a share this year, $1.25 in 1994, and $1.65 in 1995.

WHO WILL PICK UP MEDI-MAIL?

Medi-Mail was one of the many drug-related stocks that has been under severe downside pressure for more than a year. It slumped from about 9 early last year to 2⅛ in late July. But then the stock went pop—to nearly 4—when Merck announced on July 28 that it was acquiring Medco Containment Services for a cool $6 billion.

What's the connection? With sales of $2.2 billion, Medco is a leader in mail-order prescription drugs. Medi-Mail is "a Medco-look-alike," argues investment adviser John Westergaard.

He suspects that Medi-Mail will "inevitably be bought out, too," by a large drug company "for the same reasons that Merck acquired Medco." The pharmaceutical giants "will pay almost any price to get into the mail-order medicine business," says Westergaard, since it's the best way to gain a foothold in the low-cost, mass marketing of drugs a business sure to get a boost from the kind of managed-care system envisioned by the Clinton Administration.

Westergaard expects Medi-Mail revenues to jump to $25 million this year and to $70 million in 1994 from $10.3 million in 1992. The rise to $70 million will come mainly from a contract that Medi-Mail obtained recently from Illinois to supply mail-order drugs to retired state employees. "I value the stock at 10 to 13 a share over the next 18 months on a buyout deal," declares Westergaard, based on Merck paying three times Medco's sales.

MAPPING GENES, SAVING LIVES

For a tiny biotech that has mi[nus]cule sales of $6.3 million and is still very much in the red, O[ncor] has quite a following: J. P. Morgan has accumulated an 11% stake and the Wisconsin State Investment Board has a 9% holding. One reason for their strong interest is "gene-mapping," or more specifically, Oncor's development of DNA probe systems for detecting cancer and human genetic disorders. But that justify the stock's leap to near[ly] from 5½ in mid-July?

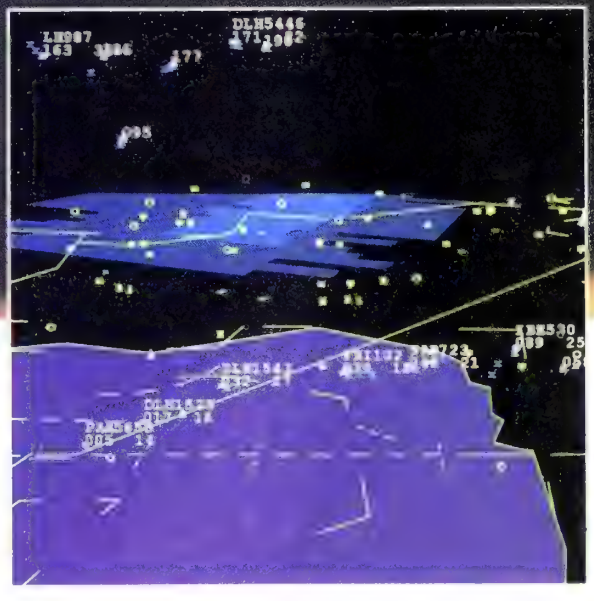
"Oncor deserves an even higher price, about double its current price," says one California fund manager. He notes that Oncor is a pioneer in using DNA-based technology for the early detection and management of cancer and genetic diseases, with help from leading human genome research labs including the Johns Hopkins University School of Medicine.

Oncor, which supplies diagnostic kits mainly to clinical researchers and pathologists, has the only FDA-approved test for leukemia and lymphoma. Now an FDA panel has recommended approval of its test for HPV, human papillomavirus, a precursor to cervical cancer. "DNA probes promise to be faster, simpler, and more accurate than other diagnostic tests," says Stephen Hanauer at Smith Barney Harris Upham.

Adds Peter Drake, an analyst at Vector Securities International: "Oncor is well-positioned to be one of the commercial leaders in this emerging field." He sees Oncor's revenues doubling to $12 million next year, jumping to $25 million in 1995, and then zooming to $60 million in 1996. He sees earnings of 10¢ a share next year, 30¢ in 1995, and $1.20 in 1996. He thinks the stock will hit 12 in a year.

he challenge:

O KEEP 190,000 IRCRAFT OUT OF ACH OTHER'S AIRSPACE.



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ne U.S. we are a key contributor to the Federal Aviation ministration's new Advanced Automation System, de- oping and producing automated, large-screen consoles that will give air traffic controllers instant access to a broad range of critical data.

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WE THRIVE ON CHALLENGES

ELLISON: CREATING THE SOFTWARE NEEDED TO MAKE THE "DATA SUPERHIGHWAY" A REA

ORACLE'S PROGNOSTICATION: TOMORROW LOOKS TERRIFIC

After a crisis, its profits are up—and so are its ambitions

Larry Ellison, 49, is famous for being a daredevil. On Christmas Day, 1991, trying to surf some enormous waves in Hawaii, he broke his shoulder, neck, and three ribs, and punctured a lung. A year later, bicycling for physical therapy, he collided with a car and shattered an elbow. "I think I like living too much on the edge," he admits.

For a while, it also seemed as though Ellison's Oracle Corp., the leader in database software, had gone right over the edge. After nearly doubling every year until reaching $916 million in the fiscal year ended May 31, 1990, the company was suddenly out of control. Products were late and bug-ridden. Auditors found questionable practices in the way Oracle booked revenue, forcing the company to restate its 1990 earnings. Its reputation, sales, and stock collapsed (chart, page 94). Board members say Oracle was on the brink of bankruptcy.

Today, Lawrence J. Ellison and the company he founded in 1977 appear to be not only mended but more ambitious than ever. For the year ended May 31, Oracle earnings jumped 130%, to $142 million, on revenues of $1.5 billion, up 28%. Ellison's ambition now: to leapfrog $3.7 billion Microsoft Corp. as the world's preeminent software com "People keep saying IBM is the pr and Microsoft is the future," says El "That's wrong. IBM is the past, an crosoft is the present."

STARRING ROLE? The future, he belongs to Oracle. Why? Becaus years of selling data-base program minicomputers and workstations the company a sizable lead in the growing world of client-server cor ing—where powerful "server" comp with large data bases dish up info tion and programming to desktop ents" across networks. Microsoft, ru desktop software, is only beginni tackle this market. Oracle is m ahead to create software needed to all the varieties of information—elec ic mail, financial transactions, maga even video—that will flow through "information superhighway."

Can the executive who presided a company's near-demise fulfill su ambitious agenda? Can a company v products have mostly been used to mundane accounting data play a ring role in the convergence of co ing and mass media?

Ellison is no stranger to contr tion. He can spin long-term visio

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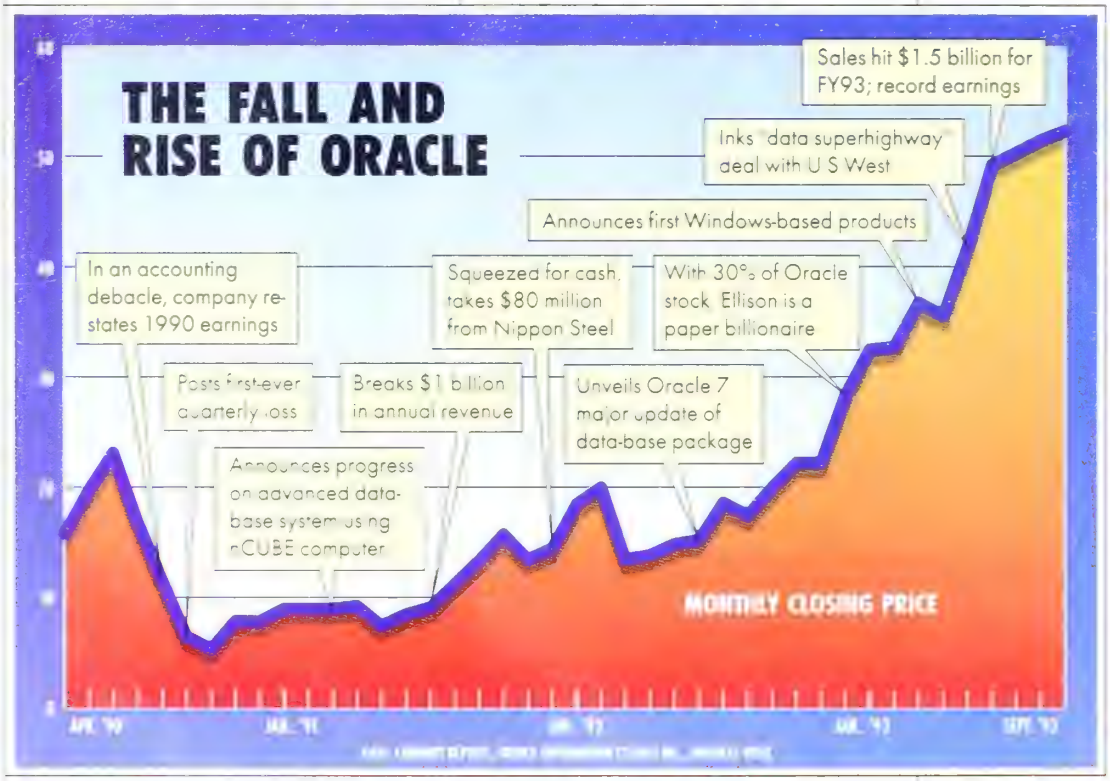
topics such as biotechnology and education, yet he admits that it was his own shortsightedness that got Oracle into trouble. "I'm embarrassed about that and responsible for it." He wears trendy Canali suits and jokes about wanting to be "the best-looking executive in Silicon Valley." Yet he sometimes appears quite shy in public. He admires Japanese art and enjoys the tranquility of a Japanese-style home and garden. But in business, Ellison is a samurai warrior.

To get ready for the information superhighway, Oracle boosted research and development spending 32%, to $146 million, last year. In conjunction with supercomputer maker nCUBE Corp.—in which Ellison is a major financial backer—Oracle is developing software for massively parallel computers using hundreds of microprocessors. Ellison says that Oracle's software can now manage whole libraries of text and thousands of hours of video footage. Oracle is working with U S West Inc. on a system that will serve up movies on demand to many homes at a time.

SIMPLE PLEASURES. As it diversifies, Oracle faces stiff competition in its traditional market. The big battle between Oracle and rivals such as Informix Software Inc. and Sybase Inc. is to make data-base programs far easier to use. On another front, Oracle's programming "tools" to help programmers work faster are being challenged by offerings from upstarts such as Powersoft Corp. and Gupta Corp. To move faster beyond its core business in minicomputers and onto PC networks, Ellison has linked up with Novell Inc.

Developing the future while managing current challenges could again test Ellison's mettle. Like Microsoft Chairman William H. Gates III, he's a self-made, bachelor billionaire (although Ellison is twice-divorced). After studying physics at the Universities of Illinois and Chicago, he dropped out and moved to Silicon Valley to work as an engineer at Ampex Inc. and then Amdahl Corp. Eleven years later, he co-founded Oracle, seeing a huge opportunity to commercialize new IBM research. This involved arranging data in "relational" tables that were easy to store and search.



While on a visit to Japan for Amdahl, Ellison fell for that nation's culture. He identified with the aggressive nature of Japanese executives and their intense corporate loyalty. He also admired their appreciation of simple pleasures, such as cherry blossoms. "When I got to Kyoto, I knew where God got the idea for heaven," he says. Ellison's Silicon Valley home reflects this: It's an elegant Japanese-style mansion with ancient Japanese art and samurai armor.

It was Ellison's own samurai tendencies, of course, that got Oracle into so much trouble. During Oracle's boom years, its U. S. sales managers fostered a take-no-prisoners culture with such gimmicks as pins saying "cut off the oxygen" and T-shirts showing an octopus strangling competitors. As long as the salespeople met their quotas, Ellison [illegible] he didn't pay attention to their me[illegible] Indeed, former employees reca[illegible] aloofness and an attitude of exe[illegible] privilege, typified by the da[illegible] squealed into the Oracle parking lo[illegible] a police car, lights flashing, in ho[illegible] suit. Caught speeding, Ellison re[illegible] even to open his window. Inste[illegible] called the company lawyer on h[illegible] phone to come help.

Even people who greatly admir[illegible] son, though, question that he coul[illegible] been totally ignorant of the sales f[illegible] missteps. Kenneth I. Cohen, a fo[illegible] Oracle marketing vice-president, [illegible] Ellison was "obsessively" hands-on, [illegible] viewing every new hire, writing [illegible] ad, and dema[illegible] numerous last-m[illegible] changes in pro[illegible] "When things [illegible] out of control, [illegible] was in it up t[illegible] teeth," says Coh[illegible]

THE CHASM. Too[illegible] whole new cast [illegible] ecutives—whom[illegible] son calls the "ad[illegible] are in charge. [illegible] the largest shar[illegible] er, with about 2[illegible] the company's [illegible] and directs long[illegible] strategy, but the[illegible] pany is run large[illegible] Oracle USA Pres[illegible] Raymond J. La[illegible] former Booz Al[illegible] Hamilton Inc. e[illegible] tive, and Vice-C[illegible] man James Abra[illegible] son, a former [illegible] executive who h[illegible] the Space Shuttl[illegible] Strategic Defens[illegible] itiative pro[illegible] They're restruct[illegible] the Oracle sales force and compen[illegible] plans, building a new consulting-se[illegible] group, and improving relations wit[illegible] jor customers. "It's a totally diff[illegible] company now," says Anthony Zi[illegible] president of Adirondak Informatio[illegible] sources, a computer consultancy i[illegible] state New York. "Now, they ask us[illegible] we want and need."

Ellison says he has also change[illegible] way he thinks and acts. He say[illegible] near-death experience of his con[illegible] made him reflect. "Sitting there lo[illegible] into the chasm is wonderful for [illegible] clarity of thought," he says. "I de[illegible] either I should get out, or I shou[illegible] my job." For Ellison, it was his daredevil stunt.

By Richard Brandt in Redwood S[illegible] Calif.

One hundred forty airlines trust Unisys with reservations.

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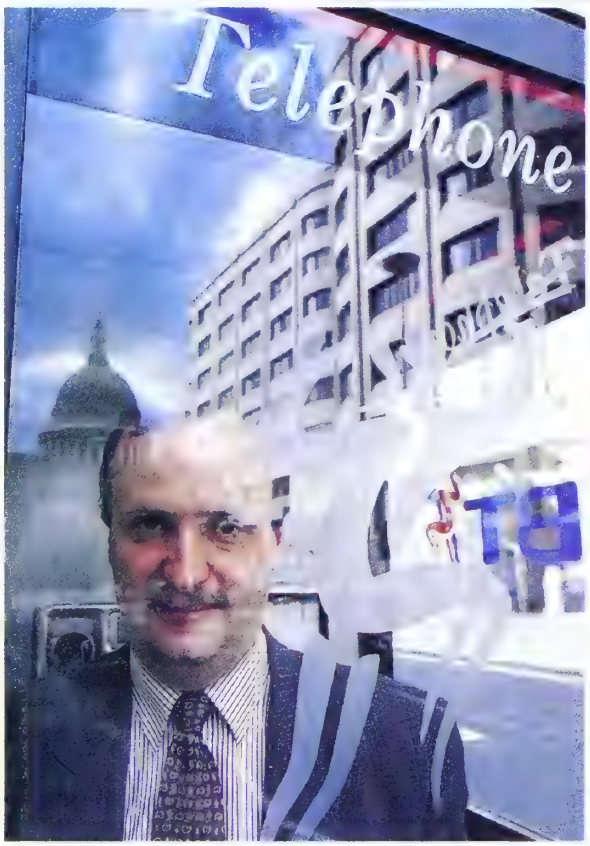
TELECOMMUNICATIONS

WHY TELECOM'S ODD COUPLE IS TRYING SO HARD

BT and MCI seek compatibility for one reason: AT&T

At a retreat in northern Virginia, a half-dozen executives from British Telecommunications PLC and MCI Communications Corp. huddled in early September. Just weeks after the two phone companies formalized a $5.3 billion alliance, they were thrashing out a plan for a new joint venture. As they got deeper into their discussions, they realized just how difficult their task would be. Worldsource, a competing alliance led by American Telephone & Telegraph Co., is also aimed at offering multinational corporations global voice, data, and video networks. AT&T's recent deal to buy McCaw Cellular Communications Inc. furthers the giant's reach. While the MCI and BT execs size up that 1,000-pound gorilla, "we have to sit down and design a new company," says Chris Earnshaw, who was named head of the BT-MCI venture last month.

That's a tall order. Earnshaw, a furrow-browed 39-year-old, faces a rival with more than twice the combined revenues of BT and MCI. An engineer who joined British Telecom in 1972 when the company was part of the postal service, Earnshaw has to meld the cultures of two vastly different companies. The stakes are huge. Not only did British Telecom agree to buy 20% of MCI for $4.3 billion, but the two also plan to pour some $1 billion into the joint venture. The objective is to make the new company one of a few global supercarriers in the fast-growing market for international corporate network services.



EARNSHAW: CAN HE HARMONIZE THE TWO CULTURES?

Earnshaw may not seem an obvious choice to head the venture. Although he soared through the ranks before managing BT's global networks, he "has never been involved in marketing or ... has never lived outside Britain, and ... never been involved in a joint ven... says a former BT exec. Michael LH... pher, BT's group managing director ... cedes that Earnshaw doesn't have ... perfect resumé for the job but say ... nominated him for his "mental agi... and accomplishments. Indeed, Earn... is credited with launching the co... ny's 800-number network in 1985, ... ing together multidisciplin... teams to help digitalize BT's ... distance network, and cuttin... worldwide network staff by ... to 30,000, in a year.

SPRING DEBUT. As CEO of the ... unnamed BT-MCI venture, E... shaw will oversee 1,000 em... ees drawn from BT and M... well as hired away from ... telecom players. Based in n... ern Virginia, the company sh... be up and running by sprin... will contribute its Atlanta-b... Syncordia, which manages ... munications networks for co... nies, and its Cyclone Project, ... billion-plus effort to create a ... capacity multimedia netw... (table). MCI will offer acces... its world-class "intelligent ... work," an international voice ... data system. The new comp... which will sell its network ... vices through BT and MCI, h... to turn a profit in three yea...

Earnshaw's biggest challe... may be cultural. BT employ... Hepher acknowledges, remai... bureaucratic, and BT prod... continue to be driven by wh... engineers dream up in the ... rather than what its custo... want. MCI, on the other hand, ... tried to stay entrepreneurial and ... tomer-oriented. Indeed, it's hard to ... two companies with such different h... ries. BT was separated from the p... service in 1981, and three years lat... was privatized. Yet it remained ... bornly customer-unfriendly. It co...

THE MCI-BRITISH TELECOM ALLIANCE

BT BRINGS

- Experience in managing international voice and data networks for multinationals through its Atlanta-based Syncordia.
- A billion-dollar-plus effort to create a high-capacity multimedia network, dubbed the Cyclone Project.
- Control of 90% of the British telephone market, where 13% of the world's multinationals are based.
- Financial muscle. BT in 1992 had free cash flow of $1.9 billion and a debt-to-equity ratio of just 13%.

MCI BRINGS

- Innovative marketing, such as Friends and Family, the discount plan that helped MCI gain 7 million customers.
- An "intelligent network" that routes calls and makes possibl... such innovations as Friends and Family.
- The No. 2 position in the U.S. long-distance market, where ... 40% of the world's multinational corporations are based.
- An aggressive, customer-oriented culture that BT, a former state-owned monopoly, hopes will rub off.

DATA: SOCIETE GENERALE TURNBULL SECURITIES LTD., COMPANY REPORTS

"The NationsBank team listens to what we say, stands behind its syndications and stays in the trenches with us during the process. To them we are a relationship, not just a single transaction or a fee source."

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Neil Austrian
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The National Football League
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J. Alec G. Murray
Vice Chairman & Chief Executive Officer
Standard Commercial Corporation
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ued, for example, to send out bil didn't break out the cost of indi calls through much of the 198 though competition has graduall introduced in Britain, BT retains the phone market.

MARKETING COUPS. MCI, on the hand, began life 25 years ago as a py underdog. It took on AT&T, t the courts and then in the market tually grabbing an 18% share a billion in annual revenues. Lately, been known for marketing coups s Friends and Family, which offe counts for calls to a group of and relatives. Just as importan has successfully fought bureau "There are only two levels of m ment between [MCI Chairman] E Roberts Jr. and the branches," Timothy Price, president of MCI' ness-services division.

But as BT has been forced t competition, it has changed its w has shed 75,000 employees since 1 cluding many old postal-service b crats. Vivienne Peters, CEO of L based Telecommunication Users credits that move for "enormou provements in service and transm quality. BT has also halved its lay bureaucracy and hired outside ta

Still, the BT-MCI venture faces hurdles, including a potential c clash. Earnshaw says he hopes to that by not trying "to bolt two c together," building a new one i Another hurdle: BT has never like alliances in the first place, says Small of Arthur D. Little Ltd. i don. "And when it has formed th wants to dominate."

To match AT&T's reach in As and MCI may have to get with a third partner, too. World partners include Japan's KDD, Sing Telecom, and Korea Telecom. B been courting Nippon Telegraph & phone Corp., but an NTT spokesma the company "decided to shelve th for the time being" because of ing and legal issues.

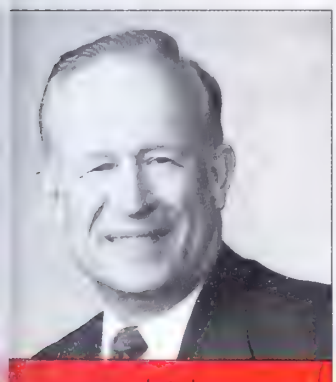
Meanwhile, BT and MCI execs ar ting to know one another—even mother tongue sometimes gets way. After attending the recent wow, Kathleen R. Flaherty, an MC ior vice-president who will be the venture's marketing head, say needs remedial British. "I've had used to somebody being 'cheesed something," she jokes. And Earn will have to learn to speak Ame But even though BT and MCI ma share a common language, they something even bigger: a commor

By Julia Flynn in London, with Lewyn in Washington

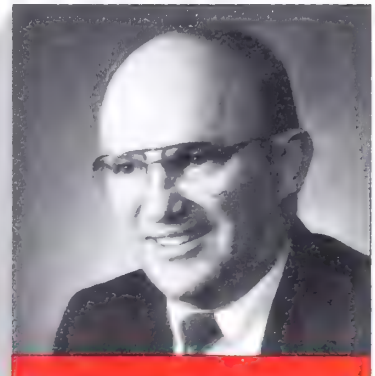
ONE LEADER SALUTES THREE OTHERS

past seventeen years, Business Week has
ed outstanding leadership in the truck
ıy conferring the Truck Dealer of the Year
We do this in association with the
n Truck Dealers, a division of the
Automobile Dealers Association. In addition to the Grand National Winner, we are honoring three finalists, who were chosen from eleven nominees. These finalists are Mr. Paul Cole, Jr. of Cole Motor Co. in Bluefield, WV; Mr. Floyd Hamus of V&H, Inc. in Marshfield, WI; and Mr. Robert L. Hunter of Hunter's Truck Sales and Service, Inc. in Eau Claire, PA.

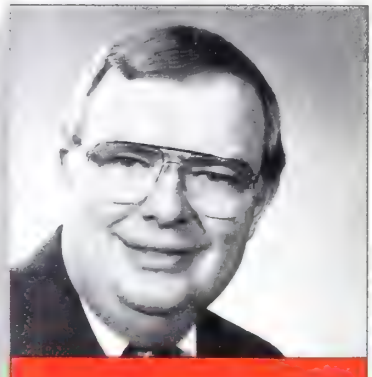
All three truck dealers were selected by a team of judges from the Indiana University Graduate School of Business in recognition of their successful dealerships and outstanding civic contributions. Business Week proudly salutes Mr. Paul Cole, Jr., Mr. Floyd Hamus, and Mr. Robert L. Hunter, the 1993 Business Week/ATD Truck Dealer of the Year Finalists.



Mr. Paul Cole, Jr.
1993 TRUCK DEALER OF THE YEAR
FINALIST



Mr. Floyd Hamus
1993 TRUCK DEALER OF THE YEAR
FINALIST



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FAST-TRACKER I A LIFE-OR-DEATH MISSION

on Monsky's race to spread the word about scleroderma

haron L. Monsky has always thrived on competition. As a teenager, she traveled the world internationally ranked figure . In the early 1980s, she became a gement consultant at McKinsey & here her life was a series of 12- days and late-night, cross-country . Under the watchful eye of boss t H. Waterman Jr., the gement guru who co-au- l *In Search of Excellence*, as clearly a rising star. she stayed at McKinsey," Waterman, "I'm convinced have become a director." ron Monsky is still running it. But the competition is ger about promotions and ises. In 1983, her McKin- reer was cut short when as diagnosed with an ob- but often fatal, autoim- disease called scleroderma. in a race for her life, the harging 39-year-old is man- a foundation she started 86 to help find a cure. s the contribution I want to in my life," she says. "It's ssion."

le is known about sclero- . Why it occurs remains a mys- Nevertheless, the medical estab- ent's best guess is that some 0 people suffer from some form disease. It tends to strike women ir childbearing years, causing the production of the protein collagen into overdrive. That contracts and ens the skin, disfiguring the victim estricting movement. In ases, the condition remains ed. But in severe cases as Monsky's—which com- roughly half of the total— llagen buildup can ulti- lead to a fatal hardening l organs.

ITY. Despite its reach, how- scleroderma has never gar- much in the way of re- dollars (chart). Last year, tional Institutes of Health granted only $3.9 million in research funding. And in the seven years since its inception, Monsky's Scleroderma Research Foundation has raised just over $2 million.

The problem is one of recognition. Since the disease is not well known—perhaps because until recently doctors had problems diagnosing it—scleroderma has attracted little private funding. That discourages researchers, who make the proposals for federal dollars. Diseases that are more widespread or those that affect children, such as cystic fibrosis or muscular dystrophy, have long had successful PR campaigns. Scleroderma, by contrast, has lacked a celebrity champion or other efforts to make it a public issue.

MONSKY WITH CHILDREN SAMANTHA (ON SWING) AND MONTANA: MOM CAME DOWN WITH THE DISEASE, WHICH IS OFTEN FATAL, IN 1983

THE PAUCITY OF SCLERODERMA RESEARCH FUNDS

Disease	Estimated number of Americans affected	NIH research dollars spent in 1992 (Millions)
CYSTIC FIBROSIS	25,000	$53.1
MULTIPLE SCLEROSIS	300,000	37.7
MUSCULAR DYSTROPHY	100,000	7.2
SCLERODERMA	300,000	3.9

DATA: NATIONAL INSTITUTES OF HEALTH, CYSTIC FIBROSIS FOUNDATION, SCLERODERMA FEDERATION

While Monsky has yet to make scleroderma a household word, "she has greatly enhanced its visibility almost single-handedly," says Dr. E. Carwile LeRoy, a professor of medicine at Medical University of South Carolina in Charleston. Drawing on the skills acquired during her brief career at McKinsey, she has attacked scleroderma as a marketing executive approaches a new product introduction. She has researched the market thoroughly, differentiated her product accordingly, and organized publicity to win over converts.

CLOSER TIES. In countless interviews with doctors and other experts about scleroderma, Monsky discovered that medical research is often impeded by the lack of coordination among scientists. In many cases, they end up competing for the same funding dollars and are slow in sharing research results.

To avoid such infighting, Monsky devised a new approach: She formed an interdisciplinary team of researchers from the San Francisco Bay Area and persuaded them to work more closely together. How? Grants from the Scleroderma Research Foundation are conditional upon open sharing of findings to avoid needless duplication. "We're so naturally competitive, we don't like to share," says team member Youn H. Kim, an assistant professor of dermatology at Stanford University. "But this way, we don't have to wait until one group presents [to collaborate]."

Some researchers criticize Monsky's teamwork approach. They complain that a lay person should not have such a big role in orchestrating the direction of research. But Monsky has plenty of expert counsel. Despite her foundation's puny size, she has loaded its board with such medical-establishment heavyweights as National Academy of Sciences President Bruce M. Alberts. And Monsky's lobbying of Senators Barbara Boxer (D-Calif.) and Sam Nunn (D-Ga.) has resulted in her appointment last year to one of the advisory councils at the NIH. There, she has made connections that are helping get a second research team up and running, this one on the East Coast.

Having made solid progress courting the medical community, Monsky is now working on the general public. Upon learning that Lily Tomlin had lost an aunt to scleroderma, Monsky spent five years writing, faxing, and

AMY ETRA

phoning the comedian until Tomlin finally agreed to meet her for 10 minutes last year. Three hours later, Tomlin emerged from the meeting committed to hosting and performing at the organization's annual fund-raiser. Held July 11, the event was attended by such luminaries as Diane Keaton, James Woods, and John Candy. It raised $200,000.

There's little doubt that the personal nature of Monsky's appeal helps win interest. Those she has wooed to the cause are impressed by her doggedness and willingness to drag her misfortune into public. Regis B. Kelly, a leading molecular biologist at the University of California at San Francisco, was skeptical about Monsky's foundation before he met her. Now, he's on the board. Normally, he says, an organization with such limited resources wouldn't merit a lot of attention. "But," he says, "her intensity and courage were amazing."

MOUSE THAT ROARED. Monsky, who grew up in Omaha, has been on the fast track ever since she began figure skating at age seven. By the time she was 11, she was spending most of the year at skating camps in cities such as Colorado Springs or Los Angeles. She eventually decided school was more important, and after graduating with an economics degree from Pitzer College in Claremont, Calif., she earned an MBA at Stanford University. She married college buddy-turned-sweetheart Mark Scher in 1977 and signed on with McKinsey's San Francisco office in 1980.

Now living with her family in Santa Barbara, Monsky surrenders as little as possible to scleroderma. "I refuse to let it dictate my life," she says. She has had three children—despite doctors' warnings that the disease would hinder her body's flexibility during pregnancy. When her eight-year-old son Max took up in-line roller skating, she did, too, even though a fall could be disasterous: The disease hinders blood flow, rendering her bones dangerously brittle.

There are other effects, too. Monsky's hands lack mobility, and she sometimes has to work from bed because she's too stiff to get up. Worse, the collagen buildup has caused lung disease that limits breathing capacity. While an experimental drug helps alleviate the symptoms, Monsky knows a cure may not come in time to save her life.

But she remains upbeat. When she was diagnosed a decade ago, doctors gave her just seven years. Friends and family agree the work has helped keep her going. "As I've gotten sicker, I've found I love life even more," Monsky says. Scleroderma's other victims could hardly hope for a better champion.

By Amy Barrett in Santa Barbara, with Joan O'C. Hamilton in San Francisco

MAD AVE IS BECOMING BOUTIQUE BOULEVARD

To placate big clients, mega-agencies are siring spin-off shops

Tony Miller calls it a "delicious irony." On Sept. 2, the chairman of Lintas New York announced that his giant ad agency would create a new shop to cater to one client: IBM Personal Computer Co. As it happens, the new agency will have offices in the same building as Chiat/Day Inc., the fabled creative shop that made none other than Apple Computer Inc. synonymous with audacious advertising.

Apple, though, eventually outgrew and fired Chiat. And Lintas now faces a similarly grim fate with IBM: The company has put its PC account up for review. What's more, one of the prime contenders for the domestic portion of the $80 million account is—guess who?—Chiat. Well, maybe it's not such a delicious irony after all.

Nevertheless, Miller hopes the new shop will convince his wayward client that Lintas is capable of real change. And Lintas is not alone. DDB Needham Worldwide Inc. and McCann-Erickson Worldwide also have recently spun off satellite shops (table). They argue that it's a smart way for a big agency to offer the nimbleness and personal service of a small shop.

Critics say spin-offs are a gimmick. Most of the new shops must still rely on the parent agency for important functions, such as market research and media buying. And coining a new name is not the same thing as building an ad agency from scratch. Madison Avenue, they say, has forever sold products by pouring old wine into new bottles. Now, it is simply selling itself the same

No question, advertisers are ingly put off by the scale and anon of big agencies. Years after the m of the 1980s, many find that ad tives focus more on their far-flun pires than on their clients. Agency agers have become preoccupied wi problems of running multinational panies," says Bruce Crawford, chie utive of Omnicom Group Inc. Wh ents get into trouble, they tend t in on this lack of involvement as cuse to switch agencies.

Even IBM insiders say Lintas respectable job of promoting the c ny, with slogans such as the cu "Human by design." But with $1.7 in billings, Lintas is handicapped sheer size. As PC Co. has become a free-standing and entrepreneurial u has grown restless—and Lintas has to look as stodgy as Big Blue. "Th much less formal than the IBM of says Miller of his client. He wan satellite shop, which has the odd of L_2, to mirror this change.

Lintas also couldn't help noticing one of the other finalists in the I view is a spin-off: Merkley New Harty, which Omnicom carved o one of its subsidiary agencies last With only eight clients and $55 mill billings, Merkley could offer PC C lavish attention it craves. That's t peal of a small agency, says IBM s woman Liz Arends: "To keep th count, they'll work a lot harder."

Spin-offs aren't an entirely new

AGENCY OFFSPRING

Key spin-offs of large advertising companies

Parent agency	Spin-off	Year founded	Key account
SAATCHI & SAATCHI	Team One	1987	Lexus (Toyot
McCANN-ERICKSON	McCann/SAS	1991	GMC Truck
LINTAS	L_1	1993	IBM PC Co.
OMNICOM GROUP	Merkley Newman Harty	1993	WordPerfec
DDB NEEDHAM	Berlin Wright Cameron	1993	Volkswagen

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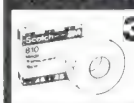

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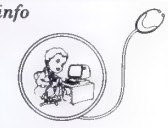

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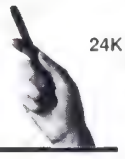

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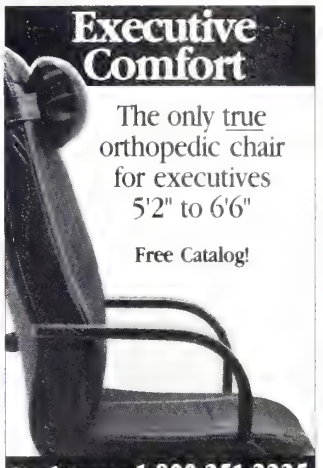

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THE CORPORATE CHOICE

cept. Saatchi & Saatchi Advertising Worldwide created a separate agency to handle Toyota Motor Corp.'s Lexus luxury-car division back in 1987. The agency, called Team One, now has a dozen other clients and billings of nearly $200 million. What makes the more recent shops different is that most were created in response to tensions between agencies and clients.

DDB Needham Worldwide Inc., for example, has promoted Volkswagen since 1959 with such legendary slogans as "Think small." But lately VW sales in the U. S. have skidded, from 141,381 units in 1987 to 75,872 last year. Dealers began howling for the agency's scalp. "A staleness set in," says Stanley Greene, president of Trend Motors, a dealer in Rockaway, N. J.

Andy Berlin, the ambitious president of DDB's New York office, scrambled to assuage Volkswagen. He dumped the agency's whimsical four-year-old slogan, *Fahrvergnügen*, in favor of "The most loved cars in the world." And he put new creative executives on the account. None of it mollified the dealers. "Volkswagen wanted a new agency," says DDB Chairman Keith L. Reinhard. So finally, he gave it one, starting a separate agency with Berlin as chairman to handle the $75 million VW account.

DUAL ROLE. DDB executives insist the new agency, called Berlin Wright Cameron, is not merely a cosmetic change. For one thing, Berlin and his partners will have equity stakes. Also, the agency will have separate offices, although insiders say DDB may still buy commercial time for Volkswagen.

Reinhard may have taken his cue from McCann-Erickson, which tried a similar strategy with GMC Trucks in 1991. Like Volkswagen, the General Motors Corp. division had grown restive with its agency. Many GMC dealers felt McCann was devoting more energy to GM's Buick Motor Div. GM began giving marketing assignments to outside agencies. So McCann set up a separate agency in Troy, Mich., called Strategic Advertising Services, for the sole purpose of working on GMC Trucks.

With 80 employees, McCann/SAS resembles a traditional shop, with its own creative, media, and account departments. But it also can draw on the parent agency, say, by taking advantage of its clout as a media buyer. One untraditional move: McCann recruited GMC marketing executive Candace Robbins to run SAS, and she remains an employee of both client and agency. Such an arrangement, say McCann executives, avoids the diverging agendas that can sunder client relationships: "There is no longer any 'them' or 'us.' There is only 'us,'" says McCann Vice-Chairman Sean K. Fitzpatrick, who oversees SAS.

Togetherness has its rewards. Sales of GMC Trucks rose from 303,534 units in 1991 to 359,365 last year, after dropping sharply the previous year. Although the economy clearly helped, Robbins says GMC was also buoyed by more focused advertising. Fitzpatrick is so enthusiastic about the spin-off idea that he tried a similar gambit to grab GM's Oldsmobile account earlier this year. After a lengthy review, Olds decided to stick with incumbent Leo Burnett Co.

Agency spin-offs can also be a way to hold onto restless staffers. Colleagues say Berlin was chafing at the bureaucratic constraints of DDB Needham. Giving him his own shop was a way for the agency to keep a talented employee who insiders say might otherwis bolted. Similarly, forming Merkle man Harty was one way Omnic ticed Parry Merkley, a highly re creative executive, to come over f val Ogilvy & Mather Worldwi Merkley says he was weary of agency, as were his partners, J Newman and Steve Harty.

PROUD PARENTS. Spin-off shop plenty of critics. Some say agenc diluting their talent pool by sipho stars for one client. Others think shops allow agencies to paper ove lems that got them into troubl clients in the first place. Says ma consultant William M. Weilbac think it represents some fancy fo on the part of the agencies."

The offsprings' proud parents they had little choice. DDB Needha McCann would probably have los clients without such a move. Lint still lose IBM. But with PC Co. the virtues of independence fr Blue, Lintas probably figures: In tising as in life, imitation is the h form of flattery.

By Mark Landler in Ne

SETTING UP SHOP: HARTY, NEWMAN, MERKLEY

SOME CRITICS CLAIM THAT SMALL SHOPS ARE MERELY "FANCY FOOTWORK ON THE PART OF THE AGENCIES," BUT CLIENTS APPRECIATE THE LAVISH ATTENTION THEY RECEIVE

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CATALOG SALES

IN THE MAIL: MARKETERS SAY CATALOG SALES ARE RISING TWICE AS FAST AS RETAIL BUYING

AFTER THE BIG BOOK, THE BIG RACE

Catalogers nab ex-Sears buyers with specialty and mass offerings

Nandini Kumaran hates shopping malls. So the New Jersey real estate agent spends an ever-increasing chunk of her annual budget on goods ordered from catalogs. In recent months, she has bought everything from computer software to household gadgets to clothes from catalogers such as L. L. Bean, Lands' End, and J. C. Penney. "After being on my feet all day, it feels great to let my fingers do all the work," says the 38-year-old mother of three.

Thanks to millions of such shoppers, the catalog business has posted steady growth for the last five years (chart). Lately, though, sales have really heated up. This year, catalog sales will rise 6%, to $50.5 billion estimates Arnold Fishman, president of Marketing Logistics Inc. That's double the 3% growth rate for traditional retailers. For catalog companies, the boom is already showing up in earnings: Spiegel Inc.'s second-quarter net income rose to $4 million from $122,000 a year ago, on sales of $516 million. Lands' End Inc.'s profits were up 42%, to $3.6 million, while sales jumped 9.4%, to $151 million.

What's behind the pickup? New marketing strategies from catalogers, including a move into TV, are one factor. Sears, Roebuck & Co.'s decision last January to close its fabled Big Book is also giving the business a boost. Former rivals have been rushing to pick off ex-Sears customers. "The demise of the Big Book created an opportunity and an opening for us," says Theodore Deikel, CEO of Fingerhut Cos.

Sears is also cashing in on its exit from the mass-market catalog business by selling its 14 million-name mailing list to other catalogers, including Hanover Direct and Athletic Supply, in exchange for a share of their catalogs' revenues. Sears is negotiating a deal with Spiegel, which in late August acquired New Hampton Inc., a women's apparel cataloger with prices comparable to Sears'. "It makes sense for us to team up with Sears," says Spiegel CEO John J. Shea. Neither company would elaborate on the talks.

Erstwhile rivals have various strategies for lopping off Sears' former catalog customers. This fall, Fingerhut and Montgomery Ward & Co., through a joint venture set up in 1991, will r their own big books: a larger-than 200-page Montgomery Ward Dire alog and a separate, 440-page Fing offering. Both will offer a wide ar products. For Ward's, that's qu comeback: It shut down its own o big-book catalog in 1985.

Meanwhile, Spiegel is targetin Sears shoppers by increasing its log's home-furnishings section. S says it has seen "a strong increa such sales during the past two mo perhaps, says Shea, because of f Sears customers. J. C. Penney wooing such buyers by acceptin Sears Discover Card for purchases both its catalog and its retail s Boosted by an infusion of Sears cu ers, Penney's July catalog sales up 22%, to $226 million.

Other catalogers are successfully ing back their books. In the pas months, Dodgeville (Wis.)-based E End, which has a 15.6 million cus list, has reduced mailings of its fu catalogs and increased mailings o cialty catalogs featuring products s kids' clothing and bath and bedro cessories. "We found that specialty logs fetch a better response," says lotte LaComb, a Lands' End sp woman. "The bigger the book, th productive it is." Sharper Image has cut down on stereos and othe margin electronics.

DRAMATIC STEP. The boom in TV shopping hasn't gone unnoticed, Many catalogers are pressing into tronic retailing. "TV shopping is too medium for the companies to ig says consultant Richard Grunsten, ident of GSP Marketing Services. ing in November, Sharper Imag sell items from its catalog on QVC work. Lands' End and Spiegel ar mulling moves into TV.

J. C. Penney may take an even dramatic step. This month, it will testing a satellite video service which customers can shop at by pressing buttons on th remote controls. William E. McC president of Pen catalog division: want to be rea go in whatever tion the consumer So even without th Book, catalog-shoppin should have plen keep them busy.

By Sunita Wa Bhargava in New with Stephanie Ana Forest in Dallas and Therrien in Chicago

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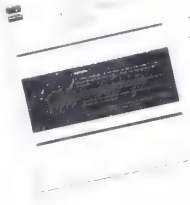

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TRADING

ESKY MAY BE GONE, T NOT HIS GAME

cheaters are still busy, often taking advantage of bad news

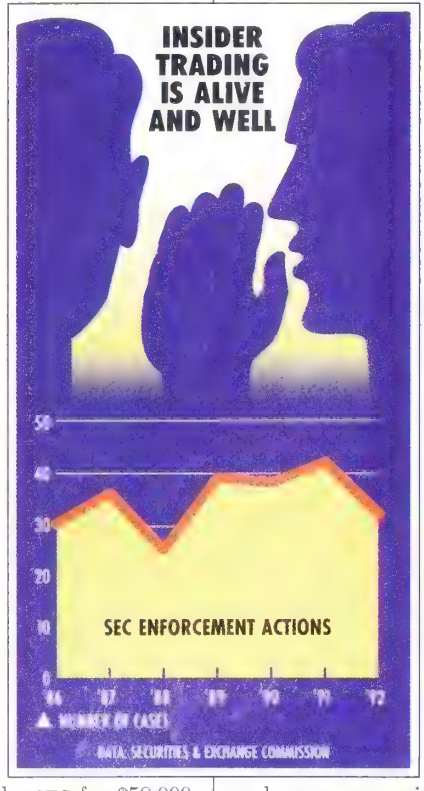
Boesky, Dennis Levine, and Mi-el Milken are names synonymous h the insider-trading scandals of 0s. All three paid for their crimes government set out to make ex- of them. In the wake of such tand prosecutions, you might he days of insider trading would ied down. After all, mergers and tions have slowed to a trickle, ng few opportunities to make a ick. In fact, insider trading is g.

number of insider-trading cases t by the Securities & Exchange ssion has remained surprisingly it, with the SEC filing more cases 2 than it did in 1986, the year was bagged. And SEC officials, itors, and defense lawyers say a of new insider-trading probes has y emerged. "The large sums of invested in the markets today, er with the high number of new provide a great incentive for fi- crimes," says Kenneth J. Via- cting chief of the securities-fraud the U. S. Attorney's Office in the rn District of New York.

these days, the SEC's typical tar- not a professional investor. It is ften a corporate insider engaged ce-in-a-lifetime trade. And instead ng stock purchases on positive ate data, such as mergers, today's are more likely to trade on ad- usiness news. "As the M&A boom down, the recession wound in," nomas C. Newkirk, the SEC's asso- irector of enforcement. Newkirk tes that about a third of insider- investigations now involve bad- rades.

UMBERS. A spate of these cases en brought in the past year. In he SEC charged Ratilal Patel, a officer of Par Pharmaceutical ith selling stock to avoid $450,000 s. The SEC claims that Patel, who nied wrongdoing, knew the com- nflated its financial health. A before, the SEC accused four for- ficers of Financial News Network xaggerating the network's reve- nd pretax income. One of the de- fendants was also charged with insider trading because he allegedly sold stock based on knowledge of the falsified financial reports. And last December, a manager at Applied Biosystems Inc. settled SEC charges that he sold company stock prior to an announcement of poor earnings.

While bad-news cases proliferate, so-called good-news cases still pop up. Perhaps the highest-profile of these is the government's current inquiry into a high-society insider-trading ring headed by Edward R. Downe Jr., the husband of automobile heiress Charlotte Ford. Prosecutors allege that Downe, who pleaded guilty to two criminal counts, swapped nonpublic information about various companies with wealthy friends, many of whom had positions on corporate boards. Among the other six alleged members of the so-called Southampton insider-trading ring are Martin Revson, brother of Revlon Inc.'s co-founder, and Fred Sullivan, former chief executive of Kidde Inc. Revson has denied the allegations. Sullivan settled with the SEC for $58,000.



Part of the reason the SEC is so busy with insider-trading claims is increased vigilance in the private sector. Exchanges and brokerage houses have upgraded their computer systems to detect suspicious transactions more accurately. The New York Stock Exchange boasts that 80% of its investigations yield some type of securities violation. At the National Association of Securities Dealers, the number of insider-trading cases referred to the SEC has jumped from 28 in 1992 to 41 for the first eight months of 1993.

Improvements at the exchanges are mirrored by progress elsewhere. Egged on by laws that reward them for taking preventative measures, investment banks, brokerage houses, and law firms have steadily built up internal safeguards. "The whole lesson of deterrence in the white-collar context is to create incentives for firms to police themselves," says John Carroll, the lead prosecutor in the Milken case.

At New York-based Skadden, Arps, Slate, Meagher & Flom, a law firm that has been rocked by insider-trading problems, code names are used to protect particularly sensitive transactions. New hires must view a videotape about insider trading before starting work. And yearly, they must sign a statement affirming Skadden Arps's rules about proprietary information. At Dean Witter Reynolds Inc., the chairman last year ordered the company's policy on insider trading to be reiterated to all employees, recalls Richard Sheehan, a Dean Witter assistant general counsel. "Regulators come down very hard on you" for failing to comply, notes Theodore Levine, general counsel for PaineWebber Group Inc.

SEXY STUFF. Aside from added vigilance, there may be a more basic reason behind the ongoing prominence of insider-trading cases: They're sexy. "These cases are the stuff of novels and movies," says defense lawyer Harvey Pitt. That, say Pitt and other critics, sometimes tempts prosecutors to bring cases of questionable merit, such as ones against individuals far removed from the source of nonpublic information. Prosecutors dispute this charge. "We pursue cases where there is the greatest public interest, not because something is juicy," says Carmen J. Lawrence, senior associate regional director in the SEC's New York office. While Lawrence and other prosecutors brag about their successes, they admit that more needs to be done. Even with better surveillance, they continually wonder about the Boeskys and Milkens that got away.

By Linda Himelstein in New York

ALBERTO MENA/BW

IRS

EDITED BY AMY DUNKIN

Banking

GETTING SOAKED BY SOARING BANK FEES?

Not so long ago, banks gave away color TVs to entice depositors to open accounts. Now, you practically have to offer the bank an incentive to take your money. Despite record earnings, banks keep cranking up fees on accounts and depositor services. In addition to the old standbys, such as increasing charges for money orders or requiring higher minimums for no-fee checking, some institutions have devised creative new ways to build fee income—from charging customers for talking to a live representative to passing on part of the cost of protection provided by the Federal Deposit Insurance Corp. (FDIC).

Bank fees have been moving up sharply for the past few years. The cost of an average account rose from $155.30 in 1990 to $184.16 in 1993, according to a study issued this summer by the Consumer Federation of America and the U.S. Public Interest Research Group (USPIRG). The 18.5% increase was nearly twice the rate of inflation.

WIDE RANGE. Banks raised fees even though their profits soared 79%, to $32.2 billion, in 1992 over 1991. Meanwhile, the average annual interest they paid on accounts fell 63%, to less than 3%. According to the study, California, District of Columbia, Florida, New York, and Texas have the highest fees. States with the lowest include North Carolina, Oregon, Vermont, Virginia, and Washington.

At the high end is $27.50 for a bounced check or stop payment—almost $10 above the national average—at First Union National Bank of Florida and Barnett Bank of Tallahassee. Fleet Bank in New England and Barnett Bank charge $3 and $5, respectively, to transfer funds automatically from your savings account to cover a checking overdraft. Most banks now routinely assess customers for using "foreign" automated teller machines (those not owned by the bank). They take in about $1 per transaction, but San Francisco's Wells Fargo charges up to $3, depending on how much you with

Then, there are inv new levies: You have $2 for calling a hum First Chicago if your qu or transaction could been handled by its Ba Phone service instead. Francisco-based Wells the first three calls in a ment period to the 2 customer-service line ar after that, each inqui to an agent $1.50; to a ma 50¢. "Employ human costs than some automated equip explains Wells Fargo s person Lorna Dubet. pricing decisions refle value the customer re from the service."

"MORE HONEST"? And banks—primarily i Southeast—are makin tomers help underwri cost of FDIC insurance. Tennessee in Memphi AmSouth in Birmin Ala., charge 11¢ a ye every $100 to go towar insurance. So a $1,000 would cost 10¢ a m $100,000 would cost ab a month. "To us, thi more honest and up than raising monthly s fees," says Anna G First Tennessee's mar vice-president. "The c er only has to pay his s

More depositors ar shelling out for the pri of getting canceled chec turned with their bank ments (about $2), closi account within a certai od of time ($10-$25), ting an account lie do (up to $12.50 a month many banks won't pa credited interest if you to close your account

of an interest cycle. best antidote to most e fees is to keep a min- balance—usually $1,500 00—on deposit. If you afford to leave that on hold, you're out of 'Fees are waived for otrocks, while the less person gets hit," says Heady, publisher of *nk Rate Monitor.* sumer advocates are g legislation to control ees. Some states, such w Jersey, already re- anks to offer at least d of account with basic s at cost. Meanwhile, ght want to pore over nk statement—and pay n to the "stuffers" that vith it—to assess how ou're paying.

INT. Thanks to the re- enacted truth-in-savings nks must disclose all accounts and calculate in a standardized way so it's comparable from one institution to another. Ask prospective banks for fee information in writing so you can compare accounts. "Once the consumers get the disclosure statement, it's important to raise questions about anything you don't understand," says Gail Lieberman, editor of *The Bank Rate Monitor.* "Ask what they mean by 'transaction.' Does it include checks, ATMs, and deposits?"

If you want to switch banks, "look for totally free checking," says Ed Mierzwinski, director of USPIRG. "One out of 20 banks offers it—generally the smaller banks in the smaller markets." Credit unions often offer better deals as well. Many don't have minimum-balance requirements, yet pay higher interest on savings and throw in such services as traveler's checks and foreign ATM use for free.

The two most important things to look for in an account are a high annual percentage yield and a low minimum balance to avoid fees, says Kent Brunette, co-author of *Money in the Bank: How to Get the Most Out of Your Banking Dollar* ($9.95, Putnam). The best interest rates are compounded continuously or daily. Avoid quarterly compounding, the book explains: It pays 0.4% less than continuous or daily.

Relationship, or linked, accounts can ensure that you don't sink below the minimum. But beware: If part of an individual retirement account is invested in securities, which are not FDIC insured, that part may not be counted toward your minimum balance. Also, be sure to get overdraft protection. Most banks offer credit lines to cover the occasional bounced check. Interest is around 18%, but it's bound to be cheaper than coughing up $27 a check.

FLAT IS BETTER. Interest-bearing checking accounts usually have higher minimums than regular checking—and higher fees if you don't make the balance. But if you want a regular checking account instead, the ones with a flat rate and no per-check charges are usually cheapest.

It may well take more work on your part, but it pays to be vigilant about these sneaky little fees. After all, you don't want your bank to nickel and dime away your savings. *Pam Black*

Smart Money

DON'T JUMP TOO FAST FOR THAT 15-YEAR MORTGAGE

prospect of owning ir home outright in 15 instead of 30, is an al- one. And with the ollege tuition costs or etirement looming just the horizon, saving by paying down your age faster seems like en better idea. That's third of the holders of r mortgages are choos- -year loans when they ice.

if you are going to use ear mortgage as a sav- ehicle, you should ask elf: Is this really the se of my money? ost people, the payments on year mortgage ot small. On a 00 loan at 6.5%, ter-tax outlay in st year is about more than on a r note at 7%, as- a 40% marginal ite. This differ- rises to about 0 by year 10.

D IN. The higher ly outlays of a 15- mortgage com- with a 30-year thought of as an investment. Bigger payments reduce the outstanding loan balance, and hence cut your interest costs. If the 15-year loan requires you to lay out $7,500 more in the first year than the 30-year mortgage, that's money on which you don't have to pay 6.5% mortgage interest. It's as if you took that $7,500 and put it in a savings account earning 6.5% interest. That's certainly an attractive deal in today's markets, where a five-year certificate of deposit yields at the most just 5%.

But there are some real disadvantages to investing your hard-earned money in a shorter-term mortgage. For one, unlike mutual funds or most other investments, you're locked into making payments no matter what happens. "You're reducing your financial flexibility," says Mark Zandi, a housing economist at Regional Financial Associates in West Chester, Pa. "You need to make sure you have a sufficient cushion of savings in case you or your spouse becomes unemployed."

Moreover, a guaranteed 6.5% return may seem inadequate in a few years. If interest rates rise, you may wish you had more money available to invest in a high-paying CD or money-market fund.

DIVERSIFY. If you want to boost your savings rate, one alternative is to take out a 30-year mortgage instead of a 15-year loan and invest the difference in payments in mutual funds or other financial assets. This strategy, while riskier, may have a higher payoff: The historic return on stocks, for example, is about 10%. And this sort of diversification makes a lot of sense if you have most of your assets in real estate, as many people do.

After all that, if the 6.5% return on paying off your debt faster still looks attractive, you can send in bigger-than-necessary payments on your 30-year mortgage. That has much the same results as taking out a shorter-term mortgage, while still preserving flexibility. At a time when no one knows where the economy is going, that's a real plus. *Mike Mandel*

IS A 15-YEAR MORTGAGE A GOOD INVESTMENT?

ADVANTAGES

- Carries a lower interest rate than a 30-year mortgage
- Enforces savings discipline
- Earns high rate of return compared with today's CDs

DISADVANTAGES

- Reduces funds for equities, which pay higher returns long-term
- Limits ability to shift investments if inflation and interest rates rise
- Locks homeowner into high principal payments even if personal financial needs change

DATA: BUSINESS WEEK

Education

A VON-VAY TICKET FOR ACCENTS

Suggy Chrai, director of pharmaceutical technology for North America at Bristol-Myers Squibb in New Brunswick, N.J., is sitting before a video camera, repeating words such as "management," "industry," and "chairperson" until he gets them right. It isn't easy. Chrai emigrated from India almost 25 years ago and still feels frustrated when he is misunderstood because of his accent. With the help of speech consultant Laura Darius, president of Corporate Communication Skills International in New York, he is modifying his pronunciation and putting the polish on his presentations at work.

Chrai, 45, is one of thousands of professionals who have called upon accent-reduction specialists to enhance their communication skills. Employees with heavy foreign or regional accents complain they are misunderstood frequently. Others feel colleagues pay more attention to how they speak than to what they say. Sometimes, situations can be humiliating. Take the Spanish-born professor, thrilled with his new job at Yale University, who told everyone he was "spending the semester in Jale."

DRAWL WITHDRAWAL. For some, losing an accent can mean winning a job. New York Speech Improvement Services (212 242-8435) had a client who said he was denied a promotion from his job as supermarket division manager because of his Puerto Rican accent. After four months of training with Director Sam Chwat, the manager was promoted to vice-president. Other immigrants, passed over on the job ladder for similar reasons, have sought relief in the legal system. Yet while the number of bias suits against employers for language discrimination is growing, few courts have upheld the claims (BW—June 21).

Professionals looking to "tawk less Noo Yawk," lose a southern drawl, or tone down a heavy foreign accent may seek the services of speech pathologists or consultants. Private lessons run on average one hour per week for 10 to 15 weeks and cost up to $250 an hour. Group lessons and community-college courses can be less intensive but usually offer better rates and a great deal of peer support. At Greenville Technical College in South Carolina, more than 100 students have completed the six-session "How to Control Your Southern Accent" course.

Most accent-reduction programs include lessons in enunciation, pronunciation, and sometimes diction. Students read from phonetic sheets, then imitate their instructor on audio- or videotape for practice at home. Some programs specialize in business executives with vocabulary that is specific to a certain profession.

Because of their need for effective communicators, companies often foot the bill for accent-reduction programs, sometimes held on-site.

When Chrai approached the human-resources director at Bristol-Myers Squibb for help with his accent, the director found a specialist and got the company to pay for training. "It helps the company if good ideas are more easily communicated. We don't want brain power diminished by an inability to get the thoughts across," says Peter Stinson, a spokesperson for American Telephone & Telegraph, which has a similar program.

The American Speech-Language & Hearing Association (ASHA) offers free referrals to state-licensed and ASHA-certified speech pathologists. Check colleges for courses often offered through a speech department or continuing education program.

Experts are careful to emphasize that accent reduction is not meant to remove all traces of one's native speech patterns. As Diane Paul-Brown, ASHA director of speech-language pathology, explains: "The goal is improving communication, not eliminating accents." Professor Henry Higgins would approve. *Rochelle Sharpe*

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DATA: BUSINESS WEEK

Worth Noting

■ **HEALTHY HEART.** The Arizona Heart Institute & Foundation's *Heart-Healthy Lessons For Children* teaches kids about how the heart works and the dangers of excess cholesterol and fat. The guidebook, which includes puzzles and recipes, costs $25. A "Smart Heart" video is $10. Call 800 345-4278.

■ **DRY VACATION.** Recovering alcoholics who want to get away—without missing Alcoholics Anonymous meetings—can choose a package that incorporates counseling into activities. Sober Vacations International (800 SOBER U) takes over Club Med resorts; Go For It New Vacations for Recovery (800 854-8224) organizes Caribbean cruises; Sobriety Adventures (208 [illegible] 2414) runs Idaho rafting

THE PINNACLE SUITES

Not all hotel amenities are found in a marble bath. At least not in The Pinnacle Suites at the RIHGA Royal Hotel.

For example, we offer a cellular phone and fax machine, each with its own private line. When you're away from your suite, calls forward to your cellular phone, then to our hotel operator. So you never miss a message.

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A private line, cellular phone and personal fax. A slight improvement over the free shampoo and shoe buffers.

From our intimate piano lounge to our private health club, the RIHGA Royal is designed to make you forget you are staying at a hotel at all. So if you place a higher value on performance than on pretense, now you have a hotel to call your own.

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Collectibles

POINTERS ON PANNING FOR GOLD COINS

The recent gold market rally has rekindled interest in coin investing. Sales of American Eagles and other gold-bullion coins, modern issues valued primarily for precious-metal content, are at their best levels in six years. And you may have noticed the increase in advertisements for coins both old and new, urging investors to get in on a "modern gold rush."

So do gold coins belong in your investment portfolio? "The bounce in gold prices is bringing coin dealers out of the woodwork," says Madeline Noveck, a New York financial planner. "But products come to market when they can be sold, not necessarily when they are good investments." Noveck and many other advisers believe gold-mining stocks and precious-metals mutual funds are fundamentally better ways to play the gold market than coins. "For investment purposes, you need to be able to sell easily, and there isn't as much liquidity in the physical gold market," she notes.

SCAM TARGET. However, those willing to do their homework can find bargains among gold issues from earlier eras that are prized for rarity and condition as well as their gold. Unlike bullion coins, which have always been a favorite with gold bugs, old coins were once exclusively a collector's market. That changed in the late 1980s, when Wall Street's limited partnerships snapped up rare issues, driving prices sky-high. Values later plummeted. But today's low prices of some rare U. S. gold coins offer newcomers a great buying opportunity, says Scott Travers, a New York coin broker and author of *The Insider's Guide To U. S. Coin Values* ($4.99, Dell Publishing).

Beginners should look for rare U. S. issues whose gold content value represents roughly half the overall price. This way, the new investor won't pay too high a premium for rarity and condition, which are difficult for the uninitiated to judge, Travers says. Neophytes should also seek coins that are at least 50% lower than their 1989 peak prices. This often suggests the coin is undervalued, and thus could appreciate significantly if gold prices resume their rise. For instance, $20 gold pieces designed by sculptor Augustus Saint-Gaudens and minted between 1907 and 1933 sold recently for $650. That's up about $90 from a year ago, thanks to the surge in gold prices earlier this year, but still well below the $1,600 the coins commanded in 1989. If gold climbs to $425 an ounce from its recent $370 price, these coins could jump to $850, Travers estimates. Avoid coins issued in years when large quantities were made, such as 1924 Saint-Gaudens pieces. They have less potential to go up in price.

BUYER BEWARE. The rare coin market is volatile, and investors should read books on collecting as well as attend coin shows and auctions before making any purchases. Another problem is that the market is unregulated and thus often a target for scams. Before plunking down your money, check with the Federal Trade Commission (202 326-3303) to find out whether a dealer has been charged with deception or other wrongdoing. Travers also suggests sticking to U. S. coins graded for condition and quality by one of the two leading grading services, Numismatic Guaranty Corp. of America or Professional Coin Grading Service. Coins are graded from 1 to MS-70, with MS standing for "mint state, for those coins that have never entered circul... MS-63 is usually the mi... investment grade.

Another category t... sider is ancient ... Centuries-old ... Roman, and ... tine issues a... as linked to t... and downs ... gold market ... with today's ... pressed values ... gains abound for ... tors willing to hold co... at least five years, say... Walker, a coin dealer ... Numismatics in Zurich.

A good place to tr... hunt may be at Soth... which is auctioning off ... maining assets of the $... lion Athena Fund II, a ... partnership created by ... Lynch in 1988 to buy a... coins. In 1992, the fu... $2.2 million. Sotheby's v... the coins at a two-pa... tion slated for Oct. 2... Zurich and Dec. 9-10 i... York. Also on the blo... coins remaining in th... million Athena Fund, a... limited partnership pr... placed in 1986. About ... pieces will be auctione... most ever at one sal... 800 444-3709 for infor... and to order catalogs ... can be placed in adva... phone or mail.

Because there will ... minimum bids, "savvy ... will have a chance to ... some real bargains," ... says. A deep-pocket... buff might consider th... of the bunch: one of two ... ing gold coins ... by Brutus aro... B.C. to com... orate Juliu... sar's deat... coin, kno... the "Id... March," ... pected to ... $250,000, ... mum, less tha... of what it sol... 1990. The ... can only hop... being wary ... Ides of March... as crucial in t... coin market ... was to Julius C...

Susan Sch...

PUBLICATIONS ABOUT GOLD COINS

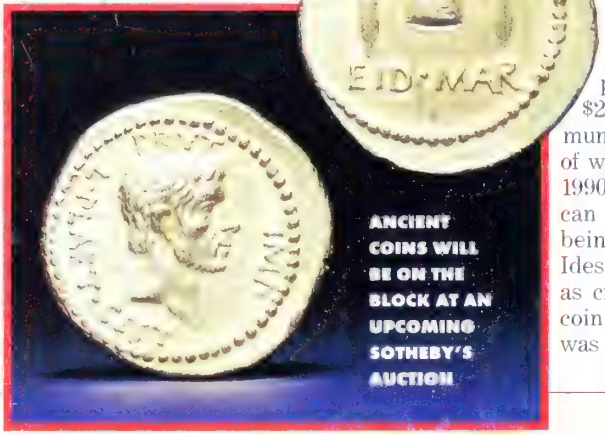
GOLD AND YOUR PORTFOLIO
Free brochure, World Gold Council, 900 Third Ave., New York, N.Y. 10022

INVESTING IN RARE COINS
Free brochure, Federal Trade Commission and The American Numismatic Assn., 202 326-2222

THE CERTIFIED COIN DEALER NEWSLETTER
$3.50 per copy, $99 for one-year weekly subscription, Dept. CCDn, P.O. Box 7939, Torrance, Calif. 90504

THE COIN COLLECTOR'S SURVIVAL MANUAL
By Scott A. Travers, $13.95, Prentice-Hall Press

DATA: BUSINESS WEEK



ANCIENT COINS WILL BE ON THE BLOCK AT AN UPCOMING SOTHEBY'S AUCTION


VISIT THE MET. SEE THE WORLD.
THE INCOMPARABLE COLLECTIONS: EGYPTIAN TO AMERICAN, GREEK AND ROMAN TO IMPRESSIONIST, EUROPEAN, AFRICAN, AND ASIAN ART AS WELL AS ARMOR – AND NOW, GALLERIES FOR PRINTS, DRAWINGS AND PHOTOGRAPHS AND THE NEW COSTUME INSTITUTE. OF COURSE, SPECIAL EXHIBITIONS. A TOTAL EXPERIENCE. FINE ART – ALONG WITH FINE DINING... CONCERTS, LECTURES, AND FILMS... SHOPPING FOR BOOKS AND GIFTS... PLUS MUSIC ON THE GREAT HALL BALCONY ON FRIDAY AND SATURDAY EVENINGS UNTIL NINE.
YOU HAVEN'T SEEN THE WORLD UNTIL YOU'VE SEEN THE MET.
METROPOLITAN MUSEUM OF ART
FIFTH AVENUE AT 82ND ST.
Andrea del Sarto, The Holy Family with the Infant Saint John, c. 1512. Mrs. Dwight Josiup Fund, 1922.

The twin spires of New York's World Trade Center are shimmering needles on the horizon as we exit the Saugatuck River and head for the deeper water of Long Island Sound. Our destination is the Norwalk Islands, a fishery just a stone's throw from the bedroom towns of Westport and Darien, Conn. The five small islands offer the shallows, rips, sandbars, and waving stands of salt grass that attract feeding striped bass and bluefish from spring to late fall. But it's only in the past few years that they've become a fly-fishing mecca.

As a Connecticut local, I'm no stranger to the Sound. I had taken scores of blues and bottom fish and an occasional bass from it as a youth. But no one ever showed up with a fly rod, unless to practice for stream casting. Real striper fishermen worked the heavy surf off Rhode Island and Cape Cod, flailing with 10-foot rods.

LIGHT GEAR. On this trip, we're using an 18-foot Hewes Redfisher, a popular Florida Keys boat about as likely in New England as a barracuda in Alaska. We've got four fly rods on board to handle lines classified from 6- to 9-weight, an assortment of flies furnished by our guide, Jeff Northrop, and a cooler stowed under the hatch. With no tackle boxes, bait buckets, or heavy rods, it's the least encumbered saltwater fishing I've ever seen.

Abruptly, Northrop veers the boat sharply to the left and guns it down the coast. We're bypassing the islands to look for a rock. I can't see anything special in the light chop, but our guide throttles down where gulls are bobbing around a break in the wave pattern. I'm supposed to drop the fly past the rock, but I botch the first casts so badly we might as well be fishing from a pier. Unlike stream fishing, saltwater fly casts need scope. They should be 60 feet or longer and the retrieve of the line, or strip, should be fast and steady to keep the bass chasing the fly. Switching to a lighter rod with line weighted more to the front improves my wimpy throw, and I'm soon in a crouch, vigorously stripping line.

We hit pay dirt about 20 minutes later. Northrop has taken us into a cove right off Westport's main beach. He is poling the boat like a gondolier into less than a foot of water. Suddenly, the rod tip shudders, and we've got a thrashing 19-inch striper on the line. With a trout-size 6-weight rod, it's a thrill to bring in a fish this size.

In the next 30 minutes, I land two more stripers of about two feet each and miss strikes on five others. Then my son Mike, with no fly-casting experience, connects with a 30-inch, 16-pound battler that takes 17 minutes to land. His fish turns out to be the day's prize. An ecstatic Northrop stows his pole and drops anchor, declaring: "We're in a blitz." We have settled over hundreds of stripers gorging on small sand eels that have surfaced with the tide change.

Our fly, an epoxy minnow with large pasted-on eyes, sequins for scales, and a three-inch white streamer for a tail, matches the bait fish. We've now broken all the surfer's striper rules. The sun's too bright, the tide too low, and we're so close to shore the motor scrapes bottom. Yet within the next two h we'll have lifted 18 s and one blue from th urban cove, with n smaller than 24 inch take pictures but relea fish. Stripers under 36 may not be kept, and rop, like many guide barbless hooks to reduc ry to the fish.

NO SURE BET. The shall ter Keys skiffs have up a range of possibili flycasters on the "Among fly fisherme area is now recognize world-class fishery for ers, blues, and even so nito," Northrop says. through November peak. Guides will work months, but it's prim three-season sport, wit action resuming in M also chancy. Our cat exceptional; one ca skunked.

Northrop's four-hour $375 for two out of Sal Flyfishing Charters in port (203 226-1915). Gendron offers skiff fish two at $250 a day th Connecticut Island Char Westport (203 221 Guides Tom Shubat an Loecher at the Comple gler in Darien (203 65 charge $150 for a h shore-fishing session. I like to read up on sal fly fishing, *Inshore Fly ing* by Lou Tabory (Ly Burford, $32.95), offers background. The salt sport is as addictive casting in the middle stream. *Bob D*

INSHORE PRIZE: THE AUTHOR (RIGHT) AND HIS GUIDE WITH A STRIPED BASS

ex to Companies

x gives the starting page for a story or fea- a significant reference to a company. Most ies are indexed under their own names. es listed only in tables are not included.

nformation
92
80

press 66, 74

08
sch 76
uter 102
tle 74, 96
66
4, 96, 110
66
ply 106E2

86
ada 53
an 53
t 88
108

Hamilton 92
rs 110

nications 96
ws Network 50

s/ABC 50
omecare 77

Gray &
22
102

ngier 110E4
Island
10E4
ic Television 90
66

30
son 44
am 102
22, 66, 107
net 44
oment 44
al 85
50
w-Hill 39, 48

anufacturing 38
88
ering 30
38

F

FEMSA 76
Fiat 48
Fingerhut 106E2
First Boston 22, 66
First Chicago 108
First Manhattan Consulting 74
First Tennessee 108
First Union National Bank 108
Fleer Bank 108
Ford 30, 48, 80
Fox Broadcasting 44

G

Gaylord Entertainment 90
GE 50, 66
GE Medical Systems 34
General Dynamics 88
General Mills 42
Geophysical Survey Systems 85
Giza 86
GM 48, 88, 102
Grumman 88
GSP Marketing Services 106E2
Guinness 76
Gupta 92

H

Hallmark Cards 90
Hambrecht & Quist 77
Hanover Direct 106E2
HarperCollins 44
Harris 30, 80
Heidrick & Struggles 66
Hibbing Electronics 36
Hibbing Taconite 36
Hitachi 80
Home Nutritional Services 77
Honda 49

I

IBM 11, 44, 66, 74, 92, 102
Ice Blast International 85
Informix Software 92
Intel 44
ITT 66

J

J.C. Penney 106E2
J.P. Morgan 90

K

KDD 96
Kemper Financial Services 39
KeyCorp 38
Kidder Peabody 86
Kirin Brewery 76
Kodak 66
Korea Telecom 96

L

Ladenburg Thalmann 39
Lands' End 106E2
Lear Siegler 66
Lehman Brothers 86
Leo Burnett 102
Levi Strauss 66
Lintas New York 102
L.L. Bean 106E2
Lockheed 88
Loral 88
Lotus Development 44

M

Martin Marietta 88
Mazda 49
McCann-Erickson 102
McCaw Cellular Communications 96
McDonnell Douglas 88
McGraw-Hill 28
MCI 96
McKinsey 66, 74
Medi-Mail 90
Medical Care America 77
Medco Containment Services 90
Mercedes-Benz 48
Mercer Management 74
Merck 90
Merkley Newman Harty 102
Merrill Lynch 39, 66, 110E2
Microsoft 11, 92
Miller Brewing 76
Misr Hotel 86
Mitsui Toatsu Chemicals 85
MMS International 28
Molson Breweries 76
Montgomery Ward 106E2
Morgan Stanley 88
Motorola 80

N

National Steel 36
Neus 44
New Hampton 106E2
News 50
Nippon Telegraph & Telephone 96
Nissan 49
Novell 92
Numismatic Guaranty 110E2

O

Ogilvy & Mather 102
Omnicom Group 102
Oncor 90
Oracle 92
Oscar Gruss & Son 86
Owens-Corning 85

P

PaineWebber 76, 88, 107
PepsiCo 66, 74
Petrofina 85
Peugot 49
Philip Morris 76
Powersoft 92
Procter & Gamble 66, 74
Professional Coin Grading 110E2
Progressive Asset Management 44

Q

QVC Network 106E2

R

Raychem 66
Raytheon 88
Renault 48
RJR Nabisco 7
Robinson-Humphrey 77
Rockwell International 88

S

Saatchi & Saatchi 102
Salomon Brothers 66
Saltwater Flyfishing Charters 110E4
Scientific-Atlanta 66
Sears 106E2
S.G. Warburg 90
Sharper Image 106E2
Shaw Brothers 50
Shearson Lehman Brothers 50
Siemens 80
Sigma 86
Singapore Broadcasting 50
Singapore Telecom 96
Skadden Arps Slate Meagher & Flom 107
Southwestern Bell 38
Spiegel 106E2
Star TV 50
Suez Cement 86
Surgicare 77
Sybase 92
Syncordia 96

T

Target Stores 44
Tele-Communications 66
Templeton Emerging Markets Fund 86
The Nashville Network 90
Thomson 80
Time Warner 50
Times Mirror 66
Toshiba 80
Toyota 49, 102
TRW 40
Tsingtao Brewery 76
Turner Broadcasting 50
TVB 50

U

UPS 7
Utica Enterprises 85

V

Vector Securities International 90
Video Data Services 44
Volkswagen 48, 102
Volvo 48

W

Wells Fargo 22, 108
Westinghouse 66
Wharf (Holdings) 50
Worldsource 96

X

Xerox 30

THANKS FOR ANOTHER KILLER COMPUTER BOWL

THE COMPUTER MUSEUM

WOULD LIKE TO PUBLICLY RECOGNIZE

THE CAST OF CHARACTERS

WHO HELPED MAKE

MAY 14TH'S COMPUTER BOWL

ONE WICKED GOOD TIME.

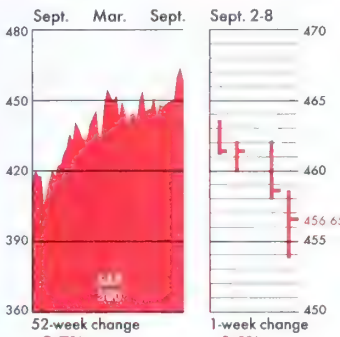
The Computer Bowl

vestment Figures of the Week

ITARY

:an interest rates go? The ket appeared unstop- h a rally that helped to ield on the 30-year U.S. ond well below 6%. The te rally was aided by d and oil prices, signs on is dead. On the equi- he Street, investors re- m the holiday weekend ge to take profits. The ped over 45 points on d 8 alone. For the week, midsize stocks were hit er than the blue chips.

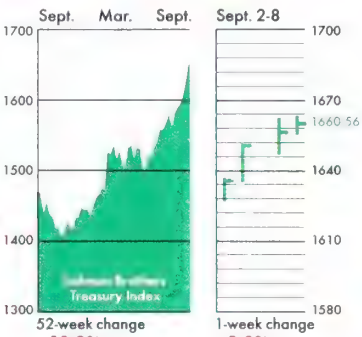
STOCKS



52-week change +9.7%

1-week change −1.4%

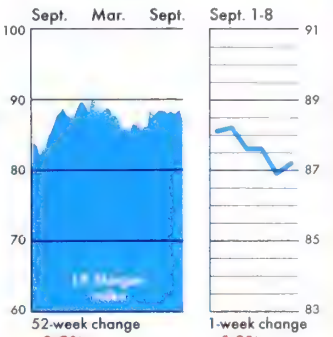
BONDS



52-week change +13.0%

1-week change +2.0%

THE DOLLAR



52-week change +8.9%

1-week change −1.0%

KET ANALYSIS

ECKS	Latest	% change Week	% change 52-week
ES INDUSTRIALS	3588.9	−1.5	9.7
OMPANIES (S&P MidCap Index)	170.0	−2.5	18.0
MPANIES (Russell 2000)	243.0	−1.7	27.5
ANIES (Russell 3000)	263.6	−1.5	12.6

I STOCKS	Latest	% change (local currency) Week	% change (local currency) 52-week
FINANCIAL TIMES 100)	3035.4	−1.6	30.4
KKEI INDEX)	20,918.2	−0.2	10.8
(TSE COMPOSITE)	3952.9	−4.6	14.6

FUNDAMENTALS	Latest	Week ago	Year ago
90-DAY TREASURY BILL YIELD	3.02%	3.08%	2.98%
30-YEAR TREASURY BOND YIELD	5.86%	6.09%	7.26%
S&P 500 DIVIDEND YIELD	2.73%	2.70%	2.97%
S&P 500 PRICE/EARNINGS RATIO	23.6	24.0	24.5

TECHNICAL INDICATORS	Latest	Week ago	Reading
S&P 500 26-week moving average	448.5	448.2	Positive
Stocks above 26-week moving average	62.9%	64.7%	Neutral
Speculative sentiment: Put/call ratio	0.44	0.45	Positive
Insider sentiment: Vickers sell/buy ratio	2.43	2.58	Neutral

STRY GROUPS

BRIDGE INFORMATION SYSTEMS INC

EEK LEADERS	% change 4-week	% change 52-week	Strongest stock in group	% change 4-week	% change 52-week	Price
-CARE SERVICES	13.8	−37.9	AMGEN	17.5	−41.5	37 3/4
LORATION AND PRODUCTION	11.0	1.4	ORYX ENERGY	18.0	−4.0	23 3/4
E TOOLS	8.6	34.6	GIDDINGS & LEWIS	14.3	17.1	24
	8.5	−9.8	BORDEN	23.0	−33.3	18 3/4
AND MOTELS	8.3	94.5	PROMUS	14.0	308.3	67 3/8
EEK LAGGARDS	**% change 4-week**	**% change 52-week**	**Weakest stock in group**	**% change 4-week**	**% change 52-week**	**Price**
INING	−14.9	30.4	ECHO BAY MINES	−26.5	50.0	9 3/8
AL MANAGEMENT	−12.1	−0.7	NATIONAL MEDICAL ENTERPRISES	−34.0	−44.1	7 3/4
OBILES	−5.2	35.4	GENERAL MOTORS	−8.2	27.4	44 3/4
L MANUFACTURING	−4.7	−23.5	OSHKOSH B'GOSH	−13.5	−42.0	13 5/8
	−4.6	−21.5	NIKE	−7.0	−28.8	51 1/4

UAL FUNDS

MORNINGSTAR INC.

total return	%
ER LATIN AMERICA	17.2
L LYNCH LATIN AMERICA A	12.7
ESSIVE AGGRESSIVE GROWTH	10.8

tal return	%
GROWTH	91.6
TON STRATEGIC INVESTMENTS	77.8
MIDAS GOLD SHARES	71.2

LAGGARDS

Four-week total return	%
LEXINGTON STRATEGIC INVESTMENTS	−11.9
MONITREND GOLD	−10.4
SHERMAN, DEAN	−9.0

52-week total return	%
MONITREND GOLD	−13.9
FIDELITY SELECT MEDICAL DELIVERY	−12.0
INVESCO STRATEGIC HEALTH SCIENCES	−11.3

TIVE PORTFOLIOS

DRI/McGRAW-HILL

nounts
f the present
$10,000
one year ago
ortfolio

ges indicate
otal returns

Foreign stocks	Treasury bonds	U.S. stocks	Gold	Money market fund
$13,687	$12,662	$11,380	$10,650	$10,226
+0.40%	+2.06%	−0.73%	−1.82%	+0.05%

this page are as of market close Wednesday, Sept. 8, 1993, unless otherwise indicated. ups include S&P 500 companies only; performance and share prices are as of market close

Sept. 7. Mutual fund returns are as of Sept. 3. Relative portfolios are valued as of Sept. 7. A more detailed explanation of this page is available on request

CLINTON'S HEALTH REFORMS: JUST A START

A funny thing happened to the Clinton health-care reform plan on its way to Congress. The more conservative economic advisers in the Administration, wary of the weak economy, were able to knock out the heavy taxes that were originally proposed to finance the program. But Treasury Secretary Lloyd Bentsen, National Economic Council Chief Robert E. Rubin, and Chairwoman of the Council of Economic Advisers Laura D'Andrea Tyson couldn't face down the more liberal members of the Administration and failed to whittle the hefty benefits package down to size. So the most sweeping health-care reform plan ever seen in this country is heading down Pennsylvania Avenue to Congress basically on a wing and a prayer that somehow billions will be squeezed out of the current medical system and be used to pay for everything. Right now, the health reforms do not pay for themselves.

But that could be O. K. The health-care reform plan is going to get a lot better as it meanders through the halls of the Senate and the House. The hope is that it gets good enough to be practical and work without burdening business with heavy new mandates or the economy with crushing taxes.

Just remember the deficit-cutting budget bill's long journey. When first proposed by Clinton, it was very heavy on tax increases and pretty light on spending cuts. By the time it emerged from the political process in Congress, there was a one-to-one ratio of spending cuts to tax hikes. True, it wasn't two-to-one, as it should have been. Yet the budget package is much better for getting "washed" through Congress. Let's hope the health-care bill gets a rigorous sudsing, too.

The regulatory, bureaucratic bent of the current package should be the first to go. The Clinton plan for controlling costs is heavy on "managed" and light on "competition." There is simply too much reliance on price controls disguised as "premium caps," which would limit rises in insurance premiums. In effect, these caps become price ceilings imposed on doctors and hospitals by insurers. Despite loud den the Clinton Administration, the caps are really a way the insurance companies to enforce price controls wit rect government intervention. Unfortunately, histo shown that price controls don't work.

A better way to control costs is to give the marke to operate. A big dose of competition would go a lo toward providing incentives to save money. Right n Clinton program envisages the creation of new regiona plans that would compete to offer high-quality care lowest possible premium.

The fine print, however, shows that each health a is expected to represent up to 70% of all consumers region. These alliances will be quasi-governmental cracies that will use their purchasing clout to force d surance premiums. The insurers would then lean on and hospitals to control costs. But where is the comp

Given the enormous size of the regional health al a near monopoly of one buyer dealing with one or tw rance companies is entirely possible. Permitting a number of smaller health-care purchasers, each push ways to control costs, would make for much greater al competition, and lower costs. In a state such as C cut, there might be dozens of groups pushing insur innovative plans, instead of one giant bureaucracy.

One way to make that work would be to increase th ber of companies buying their own health care. Un current plan, only the 1,000 largest U. S. corporation be allowed to run their own benefit programs and bu care in the market. Conservative Democrats and Repu are arguing for alternatives that would give a lot mo panies that option, increasing the number of health-ca ers and boosting competition. It's a good idea.

One-seventh of the American economy is going t fected by this amazingly complex bill after it courses t Washington. Let's hope it gets much better.

GREENSPAN SHOULD LEAN ON THE BANKS

The last time yields on 30-year bonds were below the bank prime rate, the Federal Reserve was tightening credit to fight inflation. Today, with long bonds flirting with 5¾% and the prime at 6%, the big economic problem is lack of demand, not too much. Oil prices are falling, gold has cracked, soybeans are down, and Prime Minister Morihiro Hosokawa is talking about a possible double-dip recession for Japan. Clearly, growth is weak, and the U. S. economy needs a swift kick.

It's time for Fed Chairman Alan Greenspan to exercise a little moral suasion to get the banks to push both commercial and consumer lending rates down—way down. Bank profits have hit record highs for the past two quarters. Yet, banks have kept their lending rates far above market rates and have put their money instead into safe purchases of Trea

True, the Fed's latest survey of bank lending showed that some of them are more willing to lend. A Federal Deposit Insurance Corp.'s research shows crease in the loans on banks' books in the second But commercial and industrial loans are still $10.5 lower than they were a year ago.

Bankers aren't likely to bring lending rates down urging from the regulators. Policymakers are starting some banks they don't need reserves quite so high, b aggressive action is needed. The Fed itself can pro example by cutting the fed funds rate, which hasn't be ered for over a year. Then, the chairman can start v the phones.

Safety Is Standard Equipment.

Anti-lock brakes help you steer safely during panic stops.

With the 1993 LeSabre, safety isn't an afterthought. It's a quality designed in right from the start.

A driver air bag and energy-absorbing steering column are standard

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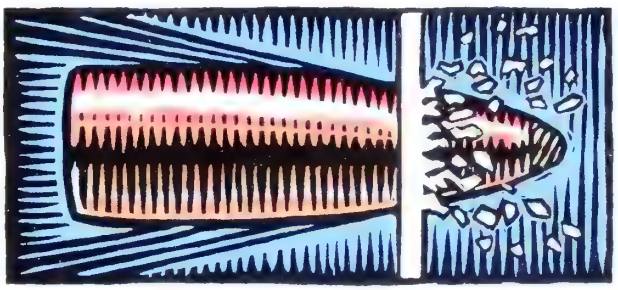

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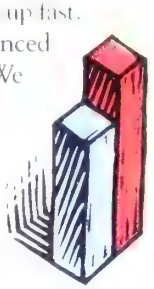
This is much more than just another new line of PCs. These are role models for everyone in your office.

Hard-working, dedicated, flexible. A few qualities to look for in a new employee.

Dell's new OptiPlex™ PCs are serious, hard-working, hard-core business machines, designed to perform in the workplace.

Our accelerated local bus video kicks all your standard workday applications into high gear. Our systems are up to 16% faster than our major competitors' PCs. As any spreadsheet worker will tell you, that adds up fast.

Every OptiPlex system also features advanced Dell™ optimized Windows™ display drivers. We also give you the ever popular burst mode memory transfer and block mode IDE transfer. (Translation: things go faster.)



We give you up to 16% faster overall application performance than our leading competitors!

And to spare you the usual set-up hassles, we'll have your PCs ready to run, right out of the box. You can have your choice of six network interface cards factory-installed.

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It's this kind of service and support that has made Dell the winner of virtually every major customer satisfaction survey in the past five years. It's also earned us a place in over two-thirds of the companies in the FORTUNE 500.*

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measurement by NSTL running BAPCo's SYSmark92 on comparable IBM-compatible systems equipped substantially identical to the Dell OptiPlex, each with no parallel or serial ports, diskette drive, external cache. NSTL c

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BusinessWeek

BER 27, 1993 A McGRAW-HILL PUBLICATION $2.75

DDLE EAST THE ECONOMICS OF PEACE MUTUAL FUNDS AFFECT PROFITS SOFTWARE MICROSOFT

Drive Interstate 85 from Georgia to the Carolinas, and you'll travel through the heart of an economic success story. There are lessons for the rest of the country. PAGE 66

INTERSTATE 85

THE BOOM BELT

SPECIAL REPORT
BABY BELLS GO VIDEO
PAGE 130

See Your Customers As Individuals, And You Could See A 15% Increase In Revenues.

No One Offers Better Ways

You can never know too much about your customers. And with conventional mainframe systems you won't. Only AT&T/NCR can give you the processing power to extract individual customer profiles from the detail data that already exists in your enterprise. And the servers and networking power to move that information wherever it's needed.

> *"The ability to manipulate large databases, analyze data, and get information out quickly to the people who need it gives us a number of advantages. We gain better insight on how to manage the Railroad, save money because we are better able to deploy assets, and ultimately improve customer service."*
>
> Joyce Wrenn,
> Chief Information Officer,
> Union Pacific Railroad

Better Knowledge Of Your Customers Can Mean A Better Bottom Line.

We can help you understand not only who your customers are and what they are doing, but what they're most likely to do *next*. So you can create specific marketing programs for each customer segment. Better sell and service existing customers. And develop new ones.

That can mean higher customer satisfaction and a better bottom line. In fact, our customers report revenue increases of as much as 15%.

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New Levels Of Power From A New Kind Of Information Company.

No other company in the world offers so many solutions for capturing data and turning it into actionable information. From mobile PCs, through the world's broadest, most powerful family of midrange servers, to massively-parallel processors.

And no other company can match our global expertise in communications and networking. Once the information is generated, we can help you move it anywhere in the world, fast.

To get to know your customers better, phone **1 800 CALL-NCR** today. We can help you implement the breakthrough applications that will help you thrive in the future.

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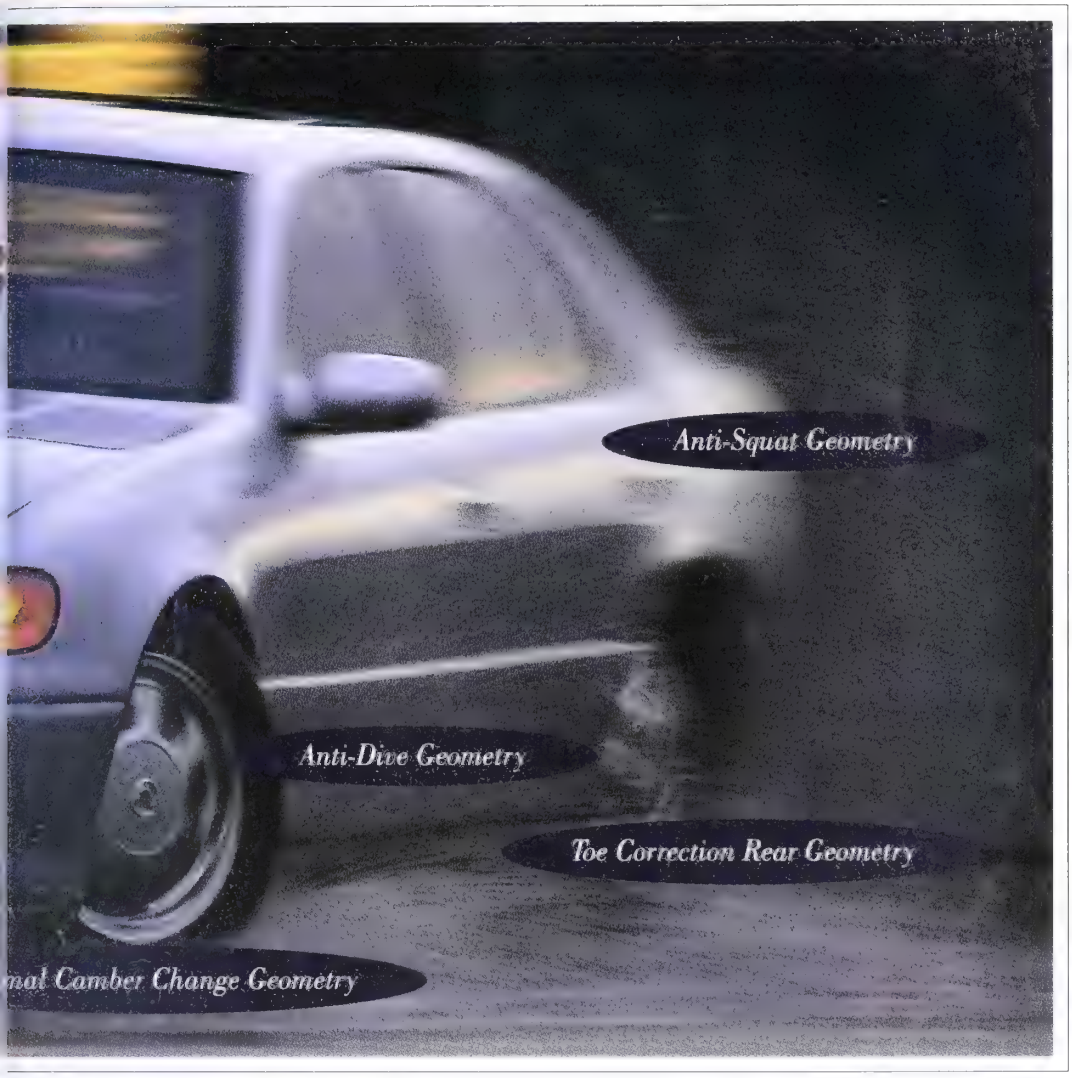

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s not lost. One ride in the S will quickly restore your he virtues of geometry.

The suspension of the Lexus GS has been designed to provide a firmer feel without sacrificing comfort. Still further adjustments were made to help reduce front-end dive during braking as well as body roll during cornering. The end result is truly a driver's car.

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NUMBER 3338 BusinessWeek SEPTEMBER 2[illegible] 19

FINANCIAL MUSCLE: CHARLOTTE, N.C., HAS BECOME THE THIRD-LARGEST BANKING CENTER IN THE NATION AFTER NEW YORK AND SAN FRANCISCO

Cover Story

98 THE BOOM BELT
Growth has no speed limit along I-85. The Southeast's homespun industrial policy has proven a magnet to foreign companies, who find the business climate inviting, the incentives generous, and the local governments eager to please. Now growth may be picking up even more speed—and that benefits not just the Southeast but the entire country

102 WORKERS TRAINED TO ORDER
. . . And at South Carolina's expense

104 THE OTHER SOUTH
Life in chicken country

Top of the News

32 THE MIDEAST COMMUNITY?
Free markets could cool one of the world's hottest spots

34 OPEC FOLLIES, CONTINUED
Peace dividend? What about oil at $10 a barrel?

36 COMMENTARY
How Clinton can help keep the peace

38 HAPPY ENDING AT PARAMOUNT?
Other players could still break up Viacom's cozy deal

39 PALL ON THE SUNSHINE STATE
Recent murders of foreigners are hurting all kinds of Florida business

40 BAXTER'S MAN IN THE MIDDLE
As customers cancel and profits drop, all eyes are on CEO Loucks

40 BLOOD MONEY
Repaying victims of tainted drugs

42 BITTER PILL OR TONIC?
Health care: Who will fare well

44 THE MAKING OF A HEALTH PLAN
A behind-the-scenes look

46 VISA VOLLEYS FOR SHARE
The credit-card giant plays catch-up

48 "MY NORSE 15 CRITICS"
Can Apple's Newton learn to read?

50 IN BUSINESS THIS WEEK
Humana, Sears, tobacco layoffs, California, cuts at American and United Airlines, a Nucor knockoff

International Business

56 JAPAN
Consumer-electronic gadgets jus[illegible] keep getting smaller and better

58 MEXICO
Salinas may give everyone a rais[illegible]

60 COMMENTARY
The new world order: Religion?

Economic Analysis

22 ECONOMIC VIEWPOINT
Roberts: Reaganomics was right[illegible]

28 ECONOMIC TRENDS
The job engine, 401(k) accounts, world trade, lagging U.S. export[illegible]

29 BUSINESS OUTLOOK
A paradox: Growth as inflation f[illegible]

Government

55 WASHINGTON OUTLOOK
Braking on the "data superhighv[illegible]"

84 THE TOKYO TRIO
Three tough cookies will represe[illegible] the Administration at the trade t[illegible]

CALLING ALL CHANNELS: PHONE COMPANIES HAVE JOINED A FIERCE BATTLE AGAINST CABLE RIVALS TO BUILD—AND PROGRAM—THE INFORMATION SUPERHIGHWAY

124 BEHIND THE HATE: NOVELL CEO RAYMOND NOORDA WAS TWICE WOOED BY MICROSOFT'S BILL GATES. BUT WHEN THE FLIRTATIONS FELL FLAT, A NASTY FEUD ENSUED

32 BREAD AND PEACE: ISRAELIS AND PALESTINIANS ARE RUSHING TO BEAT SWORDS INTO PROSPERITY, UNDERSCORING THE CRUCIAL ROLE OF ECONOMICS

The Corporation

ADVANTAGE, MARK McCORMACK?
Sports-marketing giant IMG will have to play a whole new game to stay on top of an increasingly crowded field

HERE COMES THE GOLF CHANNEL
Big hitters—including Arnold Palmer—plan a spring tee-off

Social Issues

RETOOLING U.S. WORKERS
Community colleges are now a key to corporate retraining efforts

Design

VERSA-TILITY AT NEC
Its hot-selling new laptop lets owners make modifications using snap-in components

GOOD LOOKS AREN'T ENOUGH
Zenith Data's redesigned machines are winning awards—but not sales

Science & Technology

MASTERS OF THE CLEAN ROOM
How Samsung copied Japan to become No. 1 in DRAMs

DEVELOPMENTS TO WATCH
Toxin tests, recycling tires . . . and rocket fuel, car software, fresh food

Finance

TAX APPEAL
Investors in growth-oriented funds are likely to pay a lower rate

116 WIZARD OR MALEFACTOR?
Rafi Khan has attracted lots of zealous supporters—and a number of bitter lawsuits

120 INSIDE WALL STREET
The action is hot at Metromedia
Kluge may do a "screen" play
An insurer's dividend

153 INVESTMENT FIGURES OF THE WEEK

Information Processing

124 THE MICROSOFT-NOVELL BRAWL
A fizzled merger prompted Novell to spur an FTC antitrust probe that has now reached Justice

112 WHAT DO FUNDS REALLY EARN? WHEN TAX RATES ARE FACTORED INTO EARNINGS, INVESTORS WILL FIND THAT THE TOP 50 EQUITY FUNDS STACK UP QUITE DIFFERENTLY

128 ANTITRUST POLITICS
The history of the Microsoft investigation

Special Report

130 DATA-HIGHWAY DRAG RACE
With their high-tech switches and deep pockets, the Baby Bells may have an edge over cable companies

134 BRIGHT LIGHTS, BIG HOPES
A Baby Bell scouts Hollywood

136 THIS INTERACTIVE REALM
Britain leads Europe in building networks for video, voice, and data

Personal Business

146 COLLECTING: Celebrity signatures
TAXES: Rethinking S corp status
ELECTRONICS: Digital cassettes
SMART MONEY: Health-care stocks
AUTOS: Car-rental liability

Features

6 BUSINESS WEEK INDEX

7 READERS REPORT

10 CORRECTIONS & CLARIFICATIONS

14 BOOKS
Nagorski: *The Birth of Freedom: Shaping Lives and Societies in the New Eastern Europe*

151 INDEX TO COMPANIES

154 EDITORIALS
Sealing the peace with prosperity
How the South is rising again

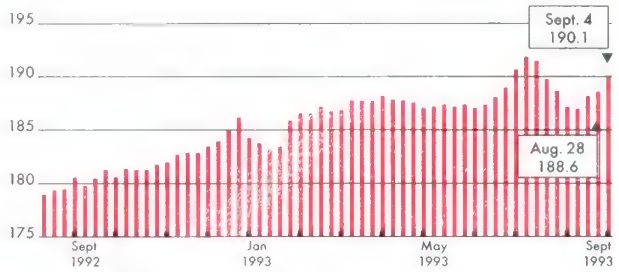
Week (ISSN 0007-7135) published weekly, except for one issue in January, by McGraw-Hill Inc. Executive, Editorial, Circulation, and Advertising Offices: 1221 Avenue of the Americas, New York, N. Y. 10020 scriber rate: $46.95/year; Canada: CDN $69/year. Second-class postage paid at New York, N. Y., and at additional mailing offices. Postage paid at Montreal, P. Q. Canada Post International Publications uct Sales Agreement No. 246484. **Postmaster:** Send address changes to BUSINESS WEEK, P. O. Box 430, Hightstown, N. J. 08520.

BusinessWeek Index

PRODUCTION

Change from last week: 0.8%
Change from last year: 5.3%

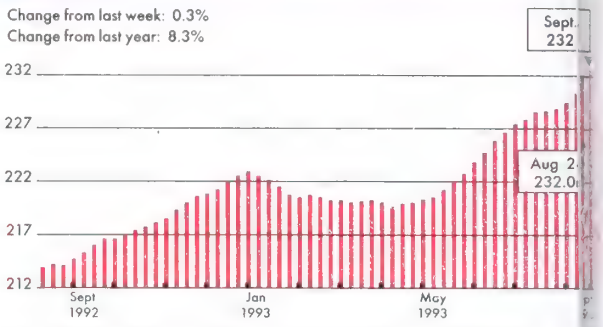
1967=100 (four-week moving average)



The production index increased modestly during the week ended Sept. 4. On a seasonally adjusted basis, output levels of electric power, lumber, rail-freight traffic, coal, and paper all rose. Steel, auto, truck, and crude-oil refining production declined, while paperboard output was unchanged from the previous week. Before calculation of the four-week moving average, the index advanced to 193, from 190.7 the week before.

LEADING

Change from last week: 0.3%
Change from last year: 8.3%



The leading index was little changed during the week ended Sept. 4. Thi news for the economy's future path came from a large drop in bond yields, h higher stock prices and improved growth in materials prices and real estate were positive contributors as well. These offset the negative signs of incre business failures and slower growth in M2. Before calculation of the four moving average, the index increased to 233.6, from 231.7.

PRODUCTION INDICATORS

	Latest week	Week ago	% Change year ago
STEEL (9/11) thous. of net tons	1,843	1,822#	13.3
AUTOS (9/11) units	80,618	94,804r#	−10.0
TRUCKS (9/11) units	75,994	89,975r#	15.9
ELECTRIC POWER (9/11) millions of kilowatt-hours	59,477	67,464#	−0.7
CRUDE-OIL REFINING (9/11) thous. of bbl./day	13,826	13,791#	−0.3
COAL (9/4) thous. of net tons	18,974#	18,468	−1.5
PAPERBOARD (9/4) thous. of tons	820.9#	829.1r	1.6
PAPER (9/4) thous. of tons	825.0#	803.0r	1.6
LUMBER (9/4) millions of ft.	444.0#	440.6	−7.0
RAIL FREIGHT (9/4) billions of ton-miles	21.5#	21.2	−1.4

Sources: American Iron & Steel Institute, *Ward's Automotive Reports*, Edison Electric Institute, American Petroleum Institute, Energy Dept., American Paper Institute, WWPA[1], SFPA[2], Association of American Railroads

FOREIGN EXCHANGE

	Latest week	Week ago	Year ago
JAPANESE YEN (9/15)	106	105	124
GERMAN MARK (9/15)	1.59	1.61	1.50
BRITISH POUND (9/15)	1.55	1.54	1.76
FRENCH FRANC (9/15)	5.54	5.67	5.12
CANADIAN DOLLAR (9/15)	1.31	1.32	1.22
SWISS FRANC (9/15)	1.38	1.42	1.30
MEXICAN PESO (9/15)[3]	3.110	3.112	3.102

Sources: Major New York banks. Currencies expressed in units per U.S. dollar, except for British pound expressed in dollars

PRICES

	Latest week	Week ago	% Change year ago
GOLD (9/15) $/troy oz	348.000	351.750	−0.3
STEEL SCRAP (9/14) #1 heavy, $/ton	112.50	112.50	20.3
FOODSTUFFS (9/14) index, 1967=100	212.3	212.6	7.2
COPPER (9/11) ¢/lb.	90.5	90.7	−20.3
ALUMINUM (9/11) ¢/lb	53.9	54.4	−7.9
WHEAT (9/11) #2 hard, $/bu.	3.34	3.36	−5.6
COTTON (9/11) strict low middling 1-1/16 in., ¢/lb	53.55	52.64	−1.0

Sources: London Wednesday final setting, Chicago market, Commodity Research Bureau, *Metals Week*, Kansas City market, Memphis market

LEADING INDICATORS

	Latest week	Week ago	% ch... ye...
STOCK PRICES (9/10) S&P 500	458.60	462.25	9
CORPORATE BOND YIELD, Aaa (9/10)	6.51%	6.61%	17
INDUSTRIAL MATERIALS PRICES (9/10)	94.9	95.5	−5
BUSINESS FAILURES (9/3)	366	306	−8
REAL ESTATE LOANS (9/1) billions	$403.1	$400.3	6
MONEY SUPPLY, M2 (8/30) billions	$3,489.1	$3,494.4r	3
INITIAL CLAIMS, UNEMPLOYMENT (8/28) thous.	324	331	17

Sources: Standard & Poor's, Moody's, *Journal of Commerce* (index: 1980=100), Dun ... street (failures of large companies), Federal Reserve Board, Labor Dept. CIBCR seasonally ... data on business failures and real estate loans

MONTHLY ECONOMIC INDICATORS

	Latest month	Month ago	% ch... ye...
12 LEADING INDICATORS COMPOSITE (July) index	151.5	151.6r	1
MANUFACTURERS' INVENTORIES (July) billions	$381.4	$381.3r	4
MANUFACTURING SHIPMENTS (July) billions	$251.5	$258.3	2
PURCHASING MANAGERS' INDEX (Aug.)	49.3%	49.5%	5

Sources: Commerce Dept., National Association of Purchasing Management

MONETARY INDICATORS

	Latest week	Week ago	% C... ye...
MONEY SUPPLY, M1 (8/30)	$1,097.9	$1,096.2r	11
BANKS' BUSINESS LOANS (9/1)	269.7	268.3	2
FREE RESERVES (9/1)	820r	319r	1
NONFINANCIAL COMMERCIAL PAPER (9/1)	158.0	158.2	2.

Sources: Federal Reserve Board (in billions, except for free reserves, which are expresse... two-week period in millions)

MONEY MARKET RATES

	Latest week	Week ...	ch... ...
FEDERAL FUNDS (9/14)	3.00%	3.11%	3
PRIME (9/15)	6.00	6.00	6
COMMERCIAL PAPER 3-MONTH (9/14)	3.16	3.13	2
CERTIFICATES OF DEPOSIT 3-MONTH (9/15)	3.14	3.09	3
EURODOLLAR 3-MONTH (9/10)	3.06	3.11	3

Sources: Federal Reserve Board, First Boston

#Raw data in the production indicators are seasonally adjusted in computing the BW index (chart); other components (estimated and not listed) include machinery and defense equipm...
1=Western Wood Products Assn. 2=Southern Forest Products Assn. 3=Free market value NA=Not available r=revised NM=Not meaningful

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It's all about working together. Teleglobe sets itself apart by working with leading manufacturers of bridges and routers to ensure flawless compatibility. And their reputation for reliability and outstanding support make them a leader in their own right

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It's about speed, and then some. Over the past thirty years, Motorola Codex has pioneered every analog transmission speed breakthrough in the industry, as well as setting the standard for the new Frame Relay protocol. But more than that, they have the ability to translate multiple protocols over a single network. They'll make it work. Quickly. Because you just don't have time to waste

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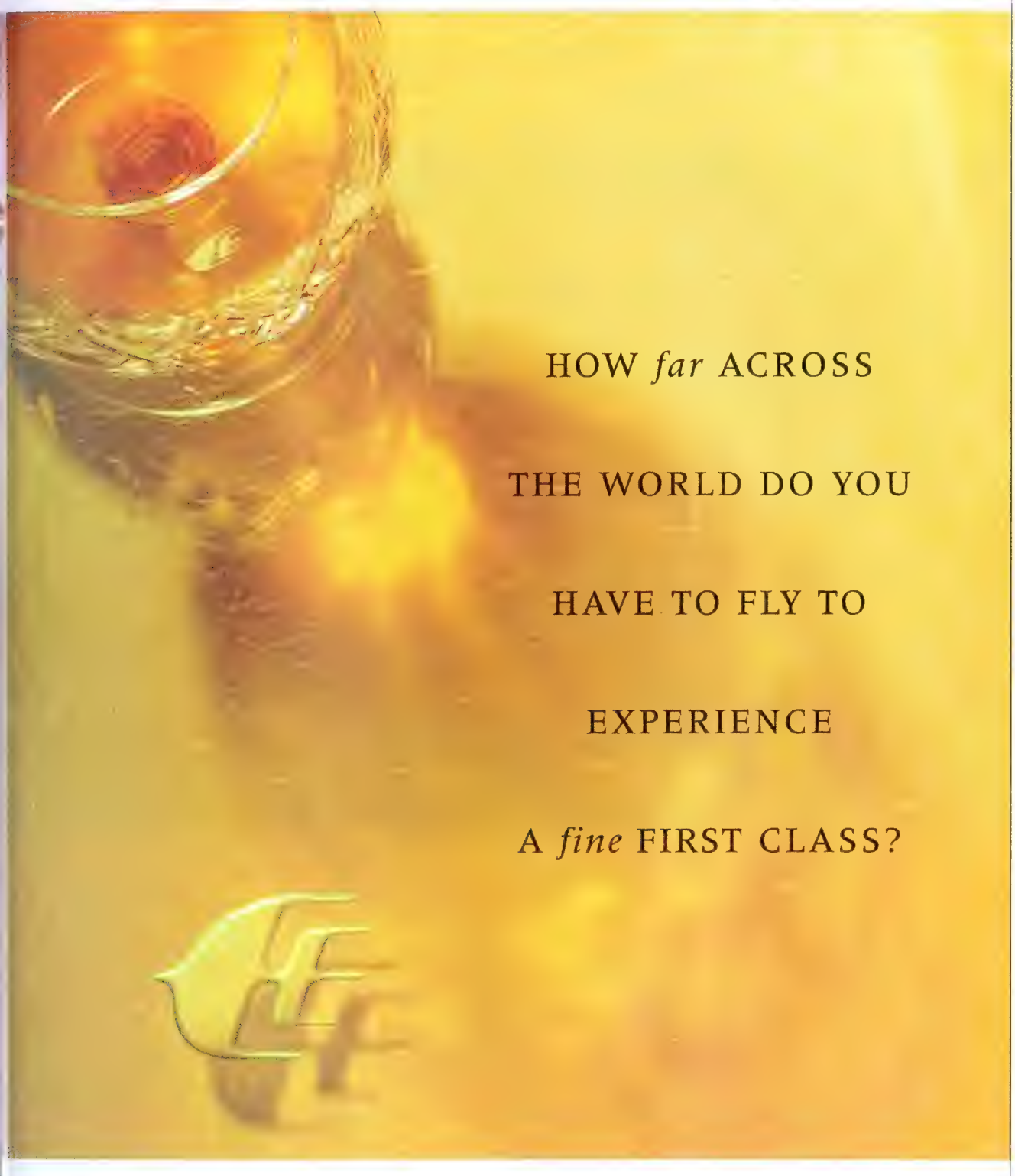

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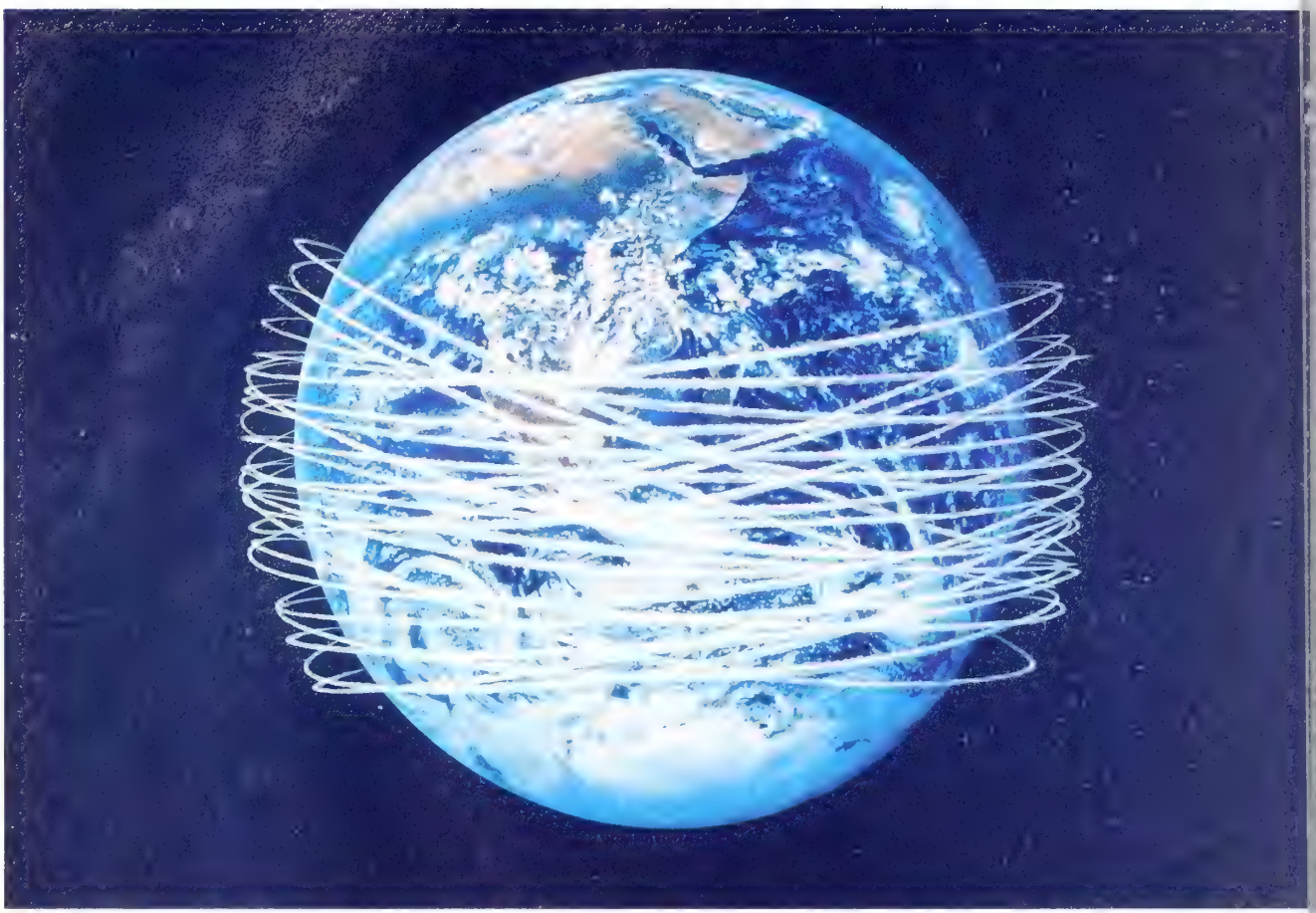

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Readers Report

HOW TO GET LAWYERS TO GIVE YOU YOUR MONEY'S WORTH

I am an in-house attorney for a company that manages troubled loans and other assets for its own account and for financial institutions ("The verdict: Guilty of overcharging," Legal Affairs, Sept. 6). One of the functions of my staff is monitoring the law firms we employ.

From my experience, problems with law firms vary from innocent mistakes to apparent gouging. Below is a sampling of some of the problems we find.

- Overstaffing: A partner does work that should be delegated to an associate or even a paralegal, billing at lower rates. A paralegal might do secretarial work (such as calling a clerk and setting a hearing date) and bill for the time.
- Churning: Numerous people work on a routine file, have internal conferences, and all bill the client. On many matters, it is impossible for more than two lawyers to work together efficiently.
- Suit-happy: Some lawyers routinely suggest filing suit before they have analyzed the problem fully. Even if you win a trial, does the defendant have the resources to pay? Can you prove your case? Filing suit in such instances often is a waste of time and money.

Richard G. Pratt
Tampa

Your article brought out some valid points. But what you don't understand is that you often get what you pay for. Savings can result in undesirable legal results. What it comes down to is understanding the service you are buying. Efforts to forge a trusting relationship between the company and legal firm should be established. In this way, cost benefits and quality legal work can both be achieved.

Marla Kelley
Milford, Mass.

CUT DEFENSE, BUT DON'T CUT OUT SMALL BUSINESS

Representing an industry that frequently feels the pain Deputy Defense Secretary Perry is addressing, I commend his efforts to cut costs by eliminating any unnecessary "specifications and contracting practices." But I hope that the Pentagon doesn't lose sight of the bottom line in its acquisition reform efforts: equal quality for less money.

Let Mr. Perry use his drive and energy to attack those useless lemon-pie-filling specifications, but leave small businesses to do what they do best: utilize skilled workers to provide high-quality specialized components at a fraction of the prime-contractor price.

Joe T. Franklin Jr.
Executive Director
American Gear Manufacturers Assn.
Alexandria, Va.

MUNI DEALERS HAVE STOOD UP—AND THEY SHOULD BE COUNTED

We were disappointed that your recent story "The trouble with munis" (Cover Story, Sept. 6) left the reader with the impression that dealers in municipal bonds are somehow ignoring the problems. In fact, nothing could be further from the truth. Public confidence in the market and protection of the interests of individual investors, in particular, are of paramount concern to our members.

Yet despite a number of conversations with several of your reporters, the story omitted any reference to the strong positions that have been taken over the past few months by the Public Securities Assn. (PSA) on behalf of municipal-bond dealers with regard to two important concerns: the lack of credit information on municipal bonds traded in the secondary market and solicitations of campaign contributions.

On both issues, the PSA has taken the unusual position of recommending that strong new rules should be promulgated by the Securities & Exchange Commission to require the disclosure of more information about the awarding of bond underwriting business and about the continuing financial condition of the bond issuer.

The PSA believes that new rules regarding disclosure or prohibition of political contributions are in order but that they should apply to *all* participants in the market, including independent finan-

BUSINESS WEEK
SEPTEMBER 27, 1993 * * *3338
ISSN 0007-7135

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Readers Repo

CORRECTIONS & CLARIFICATIO

The chairman and chief executive o cer of Perkin-Elmer Corp. is Ga N. Kelley. The executive quote "Mini-nationals are making maxi impact" (The Corporation, Sept. 6) Riccardo Pigliucci, the company's p ident and chief operating officer.

"Sticking it to Japan with sti shock" (Top of the News, Sept. 6) takenly quoted Randall R. McCath of Bank Lease Consultants Inc. as ing financial difficulties would mak hard for Mazda to match the lea deals offered by other carmakers.

cial advisers, attorneys, engineering feasibility consultants, and bond i ers—not just to the underwriters. thermore, the public official who ha licited and collected the contributio in the best position to disclose fully tributions of all types: PAC, corpo and personal.

With regard to secondary-market closure, municipal-bond dealers h long been concerned with the lac credit information available to dea and investors about bonds trading the secondary market, with its ef on securities trading.

PSA believes the SEC should pro gate rules requiring issuers to sub continuing disclosure information to Municipal Securities Rulemaking Bo to be made available to all interes investors and dealers on a fair and ti ly basis.

We are also concerned that your a cle did not accurately portray defa rates in the 20% of the market tha made up of nonrated bonds. Ratings costly, and many smaller issuers able to sell their bonds locally witho rating and choose to save the mo In a recent study, PSA found that nea 40% of the nonrated issues are for e cation and utilities. During the six ye studied, there was not a single default either of these two major categories nonrated bonds.

We hope that in the future BUSINE WEEK will seek and reflect the consen views of municipal bond dealers wh writing about this important securit market.

Heather L. Ru
Preside
Public Securities As
New Yo

Letters to the Editor should be sent to Readers Rep Business Week, 1221 Avenue of the Americas, N York, N. Y. 10020. Fax (212) 512-4721. All let must include an address and daytime and evening t phone numbers. We reserve the right to edit letters clarity and space

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	1990	1991	1992
Sales	19,964	19,964	27,167
Capital Expenditure	10,610	11,827	10,637
Net Profit	1,367	1,413	1,425

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Books

THE BIRTH OF FREEDOM: SHAPING LIVES AND SOCIETIES IN THE NEW EASTERN EUROPE
By Andrew Nagorski
Simon & Schuster • 319pp • $23

PRESENT AT THE RECREATION OF *MITTELEUROPA*

On a hot summer day in the northern Polish town of Gdansk, apocalypse was in the air. More than a thousand Poles had gathered in the church of St. Byrgida, awaiting the arrival of Solidarity leader Lech Walesa. It was August, 1989, and power was ebbing rapidly from the communist government.

Day and night, Solidarity leaders had been meeting secretly, debating how to take over without antagonizing the Soviet bear. When an ebullient Walesa arrived with Tadeusz Mazowiecki, his hand-picked candidate for Prime Minister, the crowd poured into the church and erupted in song. Many wept with joy. Precisely how things would work out wasn't clear, but no one doubted Poland was free. Within four months, the communist governments of Czechoslovakia, East Germany, Hungary, and Romania had also collapsed.

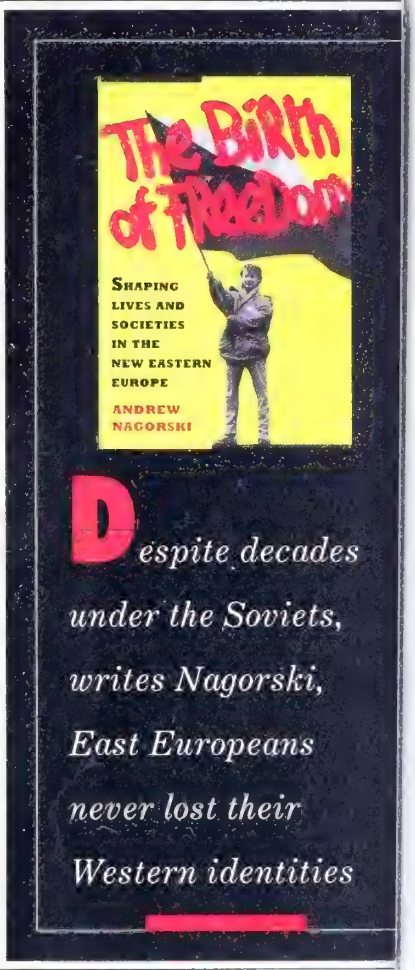
For the people of Eastern Europe, it was the start of a long, strenuous journey back to their cultural-political roots as Europeans—and a cataclysmic leap forward into late-20th century capitalism. Andrew Nagorski, *Newsweek*'s Warsaw bureau chief, has had a front-row seat as this history unfolded. *The Birth of Freedom* is his personal view of the transformation he has witnessed.

Nagorski shows how Western "East Europeans" are—and were, even when they lived on the other side of the Iron Curtain. As he notes, the east-west division of Europe some 40 years ago was wholly artificial. Indeed, the region then dubbed "Eastern Europe" is historically *Mitteleuropa*, or central Europe.

While not a new point, it's one Western leaders have been painfully slow to deal with since 1989. Throughout the cold war, the West wrote off the Soviet satellites and their peoples as lost territory, despite bloody uprisings against their Soviet rulers. In December, 1991, two years after the former satellites embraced democracy, Western Europe toiled in Maastricht on a treaty for European unity that made little effort to include Hungary, Poland, and the former Czechoslovakia in Europe's future club.

In fact, the 1989 revolutions succeeded because Eastern Europeans had refused to become "Homo sovieticus," a term used to describe those whose drive and initiative have been wiped out by Soviet system. Nagorski's talks with mer opposition leaders such as Va Havel and Solidarity's Zbigniew B underscore their European-ness. M saw communist domination as ter rary, the author says, and they fo against more than Soviet dictators "The deep meaning of their resistan the struggle to preserve their West ness," he writes, quoting exiled C author Milan Kundera.

Largely a series of anecdotes spl with analysis, the book depicts pol and society in Hungary, Poland, and former Czechoslovakia during their four years as free countries. One s the headlines haven't captured, which Nagorski illustrates well, is sudden conversion of hundreds of mer Communist bosses. Equipped



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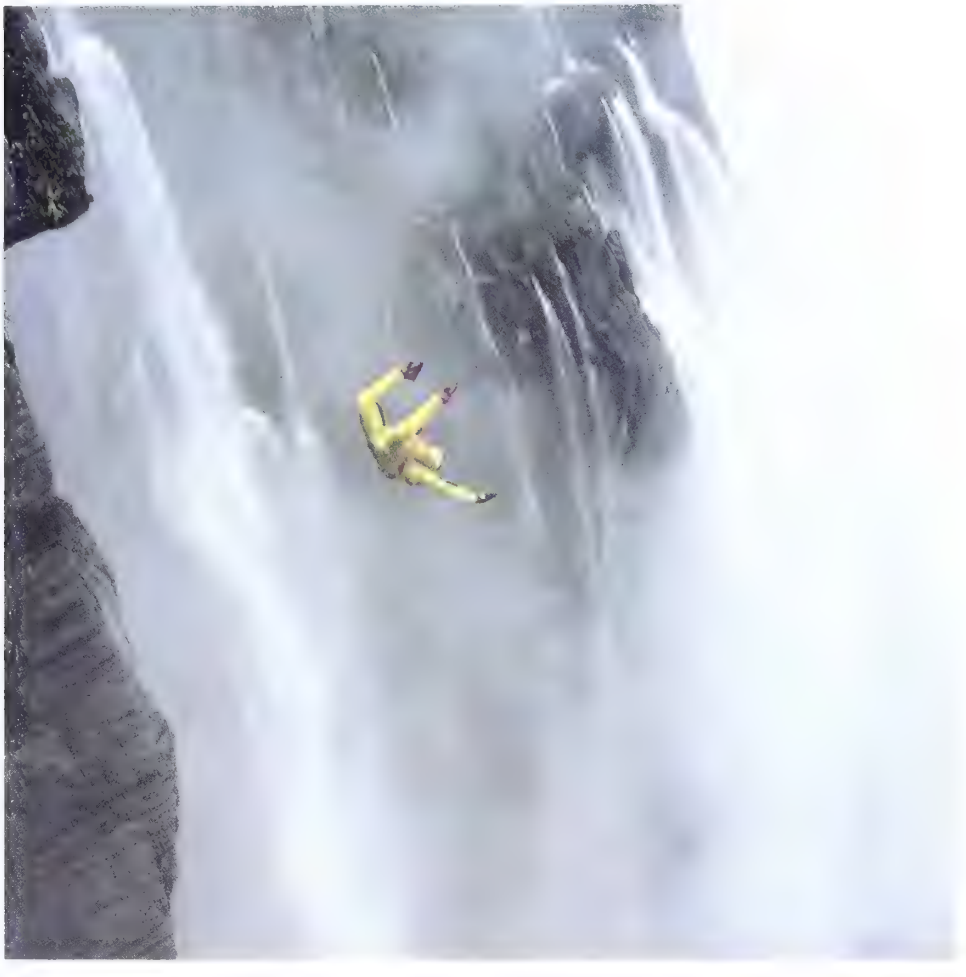

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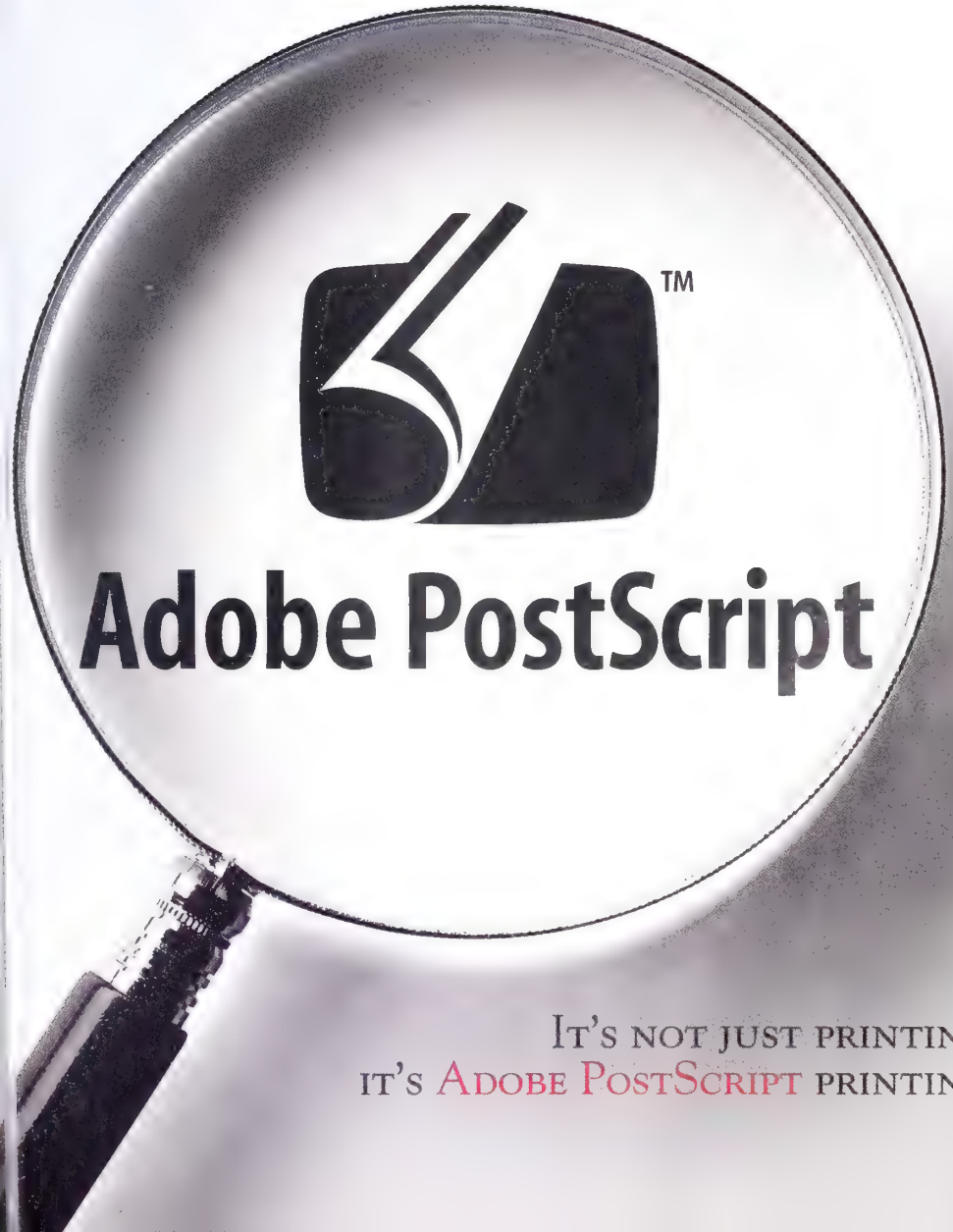

Books

the best education and language skill most have landed on their feet as pa of a new market-economy elite.

One year after a Solidarity landsli swept Polish apparatchik Ireneusz S kula and his ilk from power, for exa ple, Sekula was more comfortable th ever. In 1990, Nagorski found him "smo ing a Cuban cigar in his new office president of Polnippon, a Polish-Jap nese joint venture... comfortably s tled into his new role as capitalist entr preneur." Seven hours before Germ unification in 1990, Sekula had arrang to buy two Ilyushin 18-D airliners for mere $1.5 million from East Germany bankrupt Interflug. Nine months late Polnippon Cargo was shuttling goods an international circuit, and orders ou stripped capacity.

Nagorski also highlights the Czech Kafkaesque tango with "lustration," t purging of all individuals in governme who were in any way connected as i formers to the former secret police. U ing unreliable police files as evidenc mediocre new officials who sat passive through the communist era sudden have been able to wreck the parliame tary careers of former opposition lea ers—whose stature they envy.

The most compelling chapter, howe er, explores Polish anti-Semitism pa and present. It focuses on a man w fled Poland as a child during World W II and returned 56 years later to fi out what had become of his father a brother. Traveling with the man a learning how his relatives died, Nagors conveys the horror of the family's fa as vividly as a camera's eye.

The son of Polish refugees, Nagor has a special feeling for that count and life and society in post-commun Poland dominate his book. Indeed, careful effort to balance his obser tions of Poland with examples fr Czechoslovakia and Hungary at tim becomes tedious, even though he poi to real differences among the thr Also, focused as it is on a region cha ing at the speed of a bullet train, *Birth of Freedom* seems backward-lo ing. The Polish Art B banking scandal 1991, which Nagorski describes, see less significant than when it occurr and as a modern financial infrastruct is created, a recurrence is unlikely.

Still, Nagorski answers the bigg question hanging in the air on that afternoon in 1989: Can you create a mocracy out of a communist dictat ship? His book, mirroring the psyc logical metamorphosis of three countr shows how it was done.

BY GAIL E. SCHA

Schares, who covers Central Europe, in Gdansk in August, 1989.

Robert L. Kamba, Vice President, MCI Network Management, takes a call at MCI's new facility in Morrisville, NC.

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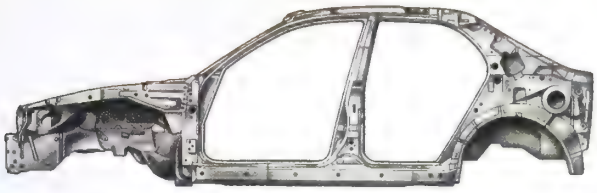

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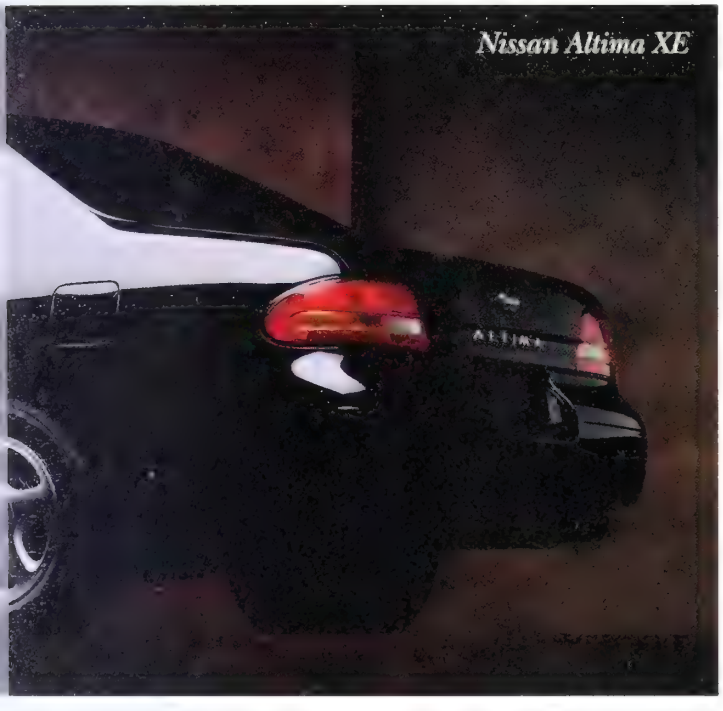

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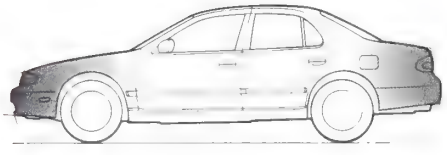

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THE WORLD KNOWS THAT REAGANOMICS WAS RIGHT

BY PAUL CRAIG ROBERTS

Reagan reaffirmed the wisdom of capitalism. And from Russia to China to Peru, his legacy is very much alive. Meanwhile, the U.S. marches back toward the statism of Big Government

Was there a Reagan Revolution, and if so, what was it? What is its legacy? There was a Reagan Revolution in the same sense that there had been a previous Keynesian Revolution. Fundamental changes occurred in the attitudes of policymakers toward the impact of government on the economy.

In the 1940s and 1950s, Keynesians debunked the invisible hand of classical economist Adam Smith. They saw macroeconomic policy and government regulation as enhancing economic performance. For them an active, interventionist government was essential to economic stability and full employment.

But by the time of Reagan's election, the Keynesian policy of maintaining high demand while neglecting the supply side of the economy had resulted in stagflation and trade-offs between employment and inflation. The only way out of this dilemma, Keynesians said, was more interventionism—an incomes policy that would control salaries, wages, and prices.

Policymakers found this unconvincing. Supply-side economists, a new breed on the scene, argued that Keynesian policy had pumped up demand while strangling incentives to supply, causing prices to rise relative to real output. The problem was not in the economy itself but in the policy. The remedy was to improve the incentives to produce. This would release the economy from stagflation and permit employment to rise while inflation fell.

During the 1980s, the economy enjoyed its longest peacetime expansion: 18 million new jobs were created, and inflation fell. The Phillips curve—the notion that inflation rises with employment—vanished, to the consternation and embarrassment of the economic Establishment, which had come to regard it as an iron law.

CONVERGING SYSTEMS. Ronald Reagan symbolized this revolution. Government, he said, is the problem, not the solution. Reagan's emphasis on this simple truth crystallized the opposition of intellectuals who still cling to the conviction that government should rectify inequities in economic and social life. However, they pay little heed to the inequities created by government and the vast failures of its policies. It is extraordinary that any intellectuals still believe that government policy, which is dominated by special interests that live off the taxpayers, serves some communitarian public interest. For the committed, faith in government has replaced religious conviction.

Prior to Reagan, people all over the world were accustomed to the view that capitalism and free markets were evolving into a semisocialist mixed economy, just as excesses of central planning were being reined in and [illegible] placed with market socialism. Competing e[illegible] nomic systems were believed to be convergi[illegible]

Reagan astonished the world by reaffirm[illegible] capitalism. He slashed income tax rates a[illegible] made individuals once again the major[illegible] shareholders in their own labor. Soviet aca[illegible] micians have told me that it was this, m[illegible] than the military buildup or "Star Wars", th[illegible] shook the confidence of the Communist Par[illegible] If capitalism were mired not in failure b[illegible] only in a wrongheaded policy, there could [illegible] no competitive chance for the Soviet Uni[illegible] whose planned economy had clearly failed.

Listen to Mikhail Gorbachev, the last Sov[illegible] leader, speaking in April, 1990: "If we do n[illegible] get out of the system we're in—excuse m[illegible] rough talk—then everything living in our so[illegible] ety will die." No anticommunist ever pr[illegible] nounced as damning an indictment of the S[illegible] viet economy. Gorbachev's economic advis[illegible] Stanislav Shatalin, added that without massi[illegible] economic change, "we will find ourselves in[illegible] common grave."

"GRAVE PROBLEM." Liberated by Gorbache[illegible] Soviet economists saw the world anew. [illegible] the end, most agreed with Boris Pinsker a[illegible] Larisa Piyesheva when they wrote: "Ma[illegible] centuries of human experience show that fr[illegible] dom of the individual is not only the highe[illegible] social value but also the most profitable way [illegible] organizing the life of society."

Reagan's legacy is very much alive: in t[illegible] transformation of Russia, Eastern Europ[illegible] Latin America, and Communist China in[illegible] capitalist-market societies; in the privatiz[illegible] tions in Britain, France, and Italy; and in t[illegible] antisocialist revolution in Sweden. Peruvi[illegible] President Alberto Fujimori told the Board [illegible] Governors of the Inter-American Developme[illegible] Bank in April, 1991, that his country's "gra[illegible] problem" is "the elephantine state—that enc[illegible] mous and disproportionate governmental app[illegible] ratus that hinders development." And Mexic[illegible] President Carlos Salinas de Gortari summ[illegible] up the outcome of Mexican socialism in o[illegible] sentence: "The state took all the propertie[illegible] leaving the public with all the needs."

Ian Wachtmeister, leader of Sweden's Ne[illegible] Democracy Party, recently observed that t[illegible] U. S. continues to march toward Big Gover[illegible] ment, while all other countries have turn[illegible] away from it. Even Bill Clinton, as President[illegible] candidate, had to pretend to be a New Dem[illegible] crat, which is a Democrat leavened with Rea[illegible] anism. Only later did the electorate learn th[illegible] Clinton's vision of America came from t[illegible] left-wing songs he sang in the 1960s. An at[illegible] vistic statism reigns in the U. S., but Reaga[illegible] ism rules abroad.

PAUL CRAIG ROBERTS IS CHAIRMAN OF THE INSTITUTE FOR POLITICAL ECONOMY IN WASHINGTON

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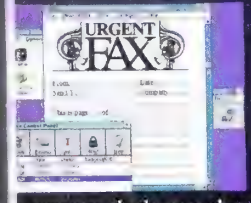

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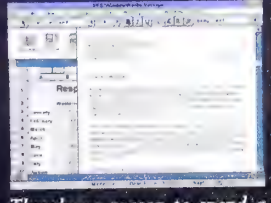

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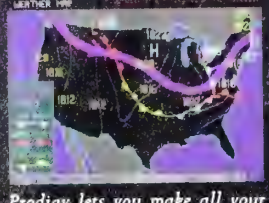

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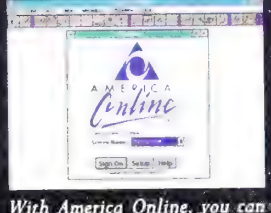

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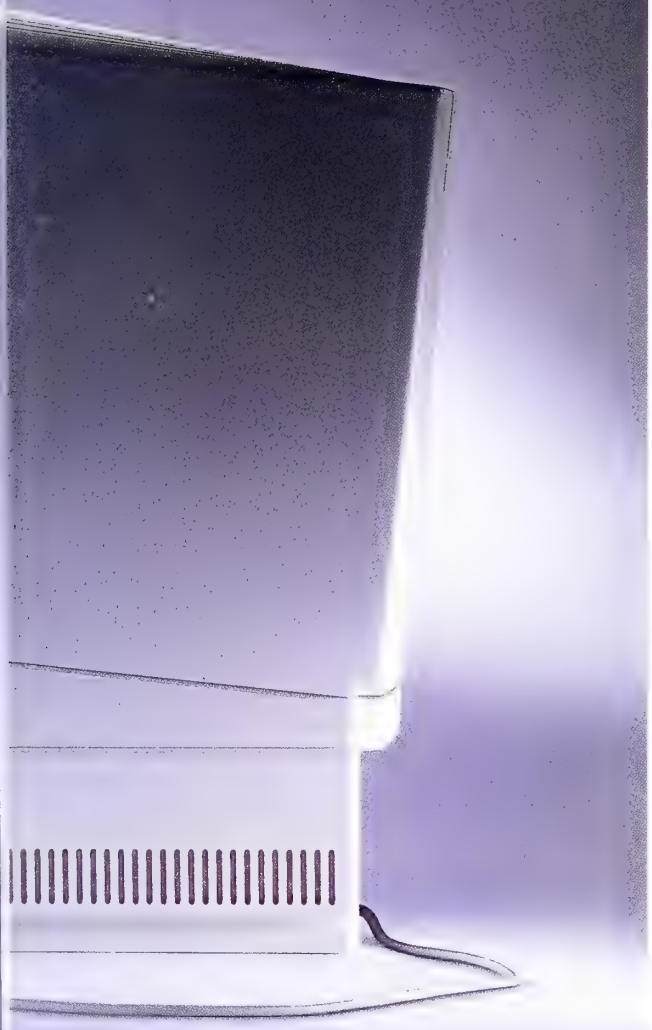

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COMPAQ

BY KAREN PENNAR

THIS RECOVERY IS CREATING JOBS—IF YOU CAN CALL THEM THAT

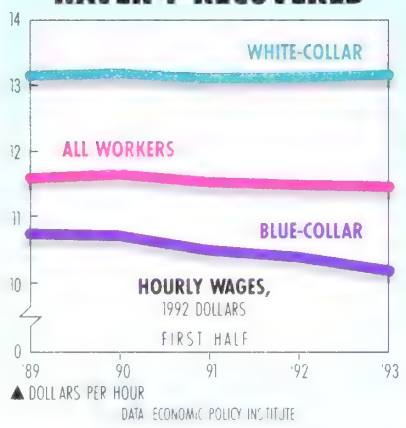
The current upturn, now in its 28th month, is not so much a jobless recovery (there have been modest gains) as a joyless recovery. So say economists at the Economic Policy Institute in Washington. That's because broad-based wage reductions have occurred, and an unprecedented percentage of the jobs created have been either temporary or part-time. This suggests to Lawrence Mishel and Jared Bernstein of the EPI that if current trends persist, living standards may erode despite growth in gross domestic product.

Thus far in the recovery, key employment indicators have been anything but robust. In the first half of 1993, wages for all workers in all occupations averaged $11.49 an hour, 0.6% less in real terms than in the same period two years earlier and 1.1% less than four years earlier. Hourly wages for white-collar jobs have risen just 0.4% during the past two years and have remained unchanged for the past four years, while wages for blue-collar workers slid 5.3% in real terms. The only silver lining was that women in white-collar jobs fared better, enjoying a 2.8% gain in real wages over the four-year period. But women in blue-collar jobs suffered a decline in real wages. And despite the improvement among highly paid women, wages for all women still trail men's wages within all occupations.

Just as discouraging is the nature of job creation. For starters, payroll employment, which fell by 1.3 million jobs during the 1990-91 recession, grew by only 1.9 million in the 28 months of recovery, for a net gain of just 563,000 jobs. The average net gain in the first 28 months of previous postwar recoveries was 3.3 million jobs.

What's more, the jobs being created are neither high-paying nor secure: Part-time jobs account for 26% of those created, and three-fourths of them were filled by involuntary part-timers. The EPI economists note this is the only postwar recovery in which there has not been a significant reduction in involuntary part-time work. And the trend thus far in 1993 isn't promising: Fully 60% of the jobs created from January to July were part-time, with half of these being filled by people who would prefer full-time employment.

WAGES HAVEN'T RECOVERED



THE 401(k) ACCOUNT: A SAVINGS CARROT THAT REALLY WORKS

It has long been a worry among economists and policymakers that special incentives do little to increase net new savings and simply cost the U. S. Treasury money. That concern prompted Congress to limit participation in individual retirement accounts in 1986. Now, the 401(k) account, a different tax-deferred vehicle, has displaced the IRA as the leading form of retirement savings by individuals. Do 401(k) accounts, annual contributions to which run about $50 billion, crowd out other saving?

No, categorically report three economists who have studied growth in 401(k)s since the program began in the early 1980s. James M. Poterba of the Massachusetts Institute of Technology, Steven F. Venti of Dartmouth College, and David A. Wise of the John F. Kennedy School of Government at Harvard University looked at data from 1984, 1987, and 1991 comparing savings and wealth levels for 401(k) contributors and noncontributors.

Poterba, Venti, and Wise found that on average, 401(k) contributions did not substitute for other forms of private saving. If substitution was taking place, then the typical family eligible for a 401(k) in 1991, for example, should have less accumulated wealth in other financial assets than the typical family in the same income bracket not eligible for a 401(k). "This was not the case," say the study's authors.

Interestingly, the three economists found that participation in 401(k)s among those eligible exceeds 60% at all income levels. That's in sharp contrast to the experience with IRAs, which in the early 1980s showed that participation was greater at higher income levels. And suggests that 401(k) accounts are n simply a carrot enjoyed by the rich.

Clearly, 401(k) plans provide a tr incentive to save: Because they are ea ily funded through payroll deductio and because many employers provide partial matching of employees' saving 401(k)s encourage new savings, rath than simply prompting a shift of sa ings from one account to another.

WORLD TRADE KEEPS ON GATHERING STEAM...

If and when the world econon emerges from its doldrums, look for huge surge in trade. That's a safe pr diction, based on how trade has be behaving even during the current slo down. The value of world trade, me sured in U. S. dollars, grew about 7 in 1992, according to the Internatior Monetary Fund. The growth was w above the previous year's 4% gain, a it points to an improving trade pictur

Among industrial nations, trade r mained muted, with exports growi 6.2% in value and imports 4.5%. T modest recovery in North Ameri helped buoy trade, but the increase r mained well below the healthy 13.5 average annual gain recorded in 1986-9 Developing nations logged larger tra gains, with exports growing by 8.8% 1992 and imports by 16.2% in 1992, from 12.6% a year earlier. The gains imports reflect strong demand for i vestment and consumer goods.

...BUT AMERICA TRAILS IN EXPORTS TO DEVELOPING NATIONS

The U. S. isn't as great a beneficia of the rising demand from developi nations as it might be, and it needs sell more in regions such as Southea Asia to offset what could be a deteri ration in U. S. exports to industrial n tions in coming months. In the secon quarter of 1993, the gain in real expor of goods and services accounted f nearly one-third of the 1.8% rise in GI But the export-order index of the N tional Association of Purchasing Ma agement has been trending down f the past few months. Maury N. Harr economist at PaineWebber Inc., sugges that weak conditions in industrial n tions and OPEC's shrinking oil revenue reflecting falling crude prices, may e plain flagging U. S. export orders.

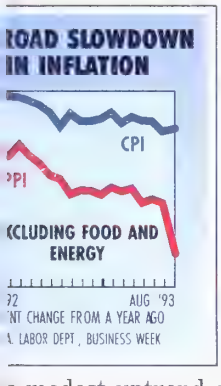
MBER 27, 1993

BY JAMES C. COOPER AND KATHLEEN MADIGAN

ESPITE ALL ODDS, ROWTH IS RISING WHILE INFLATION FALLS

he idea that inflation can slow as an expansion strengthens goes against economic wisdom. But before you say "Can't happen," consider other recent pected events: The PLO and Israel peace accord. The iage of Julia Roberts and Lyle Lovett.

eory notwithstanding, the downtrend in inflation ights how this upturn continues to defy the rules en from the experience of past expansions. The inruity is a result of the recession and slow growth of ast three years, which have left the economy with ss capacity and labor. This slack means growth can up momentum for a while without hitting up against uction constraints or tight job markets.



To the economy's benefit, low inflation is giving consumers more buying power. It will also keep interest rates low in coming months. And cheap financing is enabling companies to invest more in new plants and equipment—a stellar source of growth over the past year.

There is a downside, though. The inability of businesses to raise their prices is a byproduct e modest uptrend of demand. And with pricing powonexistent and with competition fierce, companies continue to rely on cost-cutting in order to raise profits.

DICAL LS ARE CKING F, TOO

So far this year, inflation's performance has been spectacular (chart). True, the consumer price index rose 0.3% in August, when only a 0.2% gain was expect- hat rattled the bond market. The yield on a 30- Treasury bond jumped from 5.87% to 5.97% on the 14 CPI news.

t the August blip is no sign of danger. For one , the major cause was a 0.9% jump in clothing prices, ult of the introduction of new fall and winter merlise. The Labor Dept.'s adjustment process seems to the seasonal changeovers to higher-priced apparel So prices may very well fall in September.

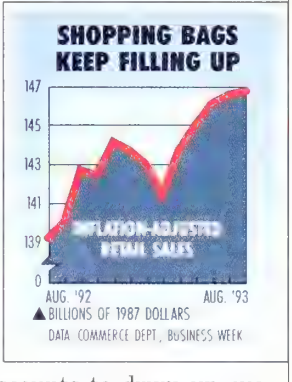
r another, prices elsewhere are dropping. Gasoline eating-fuel prices fell in August, and tobacco prodwere cheaper too. Altogether, consumer prices are up 2.8% from a year ago. Excluding food and energy, in- n is running at 3.2%. This core rate is likely to end ear below 3%, the lowest pace in 21 years.

Even medical care—the last bastion of huge price hikes—is seeing a steep slowdown in its inflation rate. Prices for health care rose only 0.2% in August. Medical care inflation has dropped from a peak of 9.6% in early 1991 to just 5.8% in the year ended in August.

Prospects are ripe for even lower inflation at the producer level. The producer price index for finished goods dropped an unexpected 0.6% in August, because of a 25.6% plunge in tobacco prices. But even excluding smoking products, the PPI was up a mild 0.2%.

Prices paid for finished goods have hardly budged over the past year, rising only 0.6%. And further up in the production process, the supplies and raw materials bought by businesses have increased by a mere 1%.

Moreover, the PPI measures only goods bought at the wholesale level. Prices for a range of services used by companies—including accounting, advertising, and legal services—are all negotiable as well.



The latest example of pricing flexibility: another round of airfare wars. After almost all U. S. carriers added $20 to round-trip fares in early September, Northwest Airlines Inc. offered deep discounts to drum up customers. Other airlines had to follow suit or risk losing business during the slow autumn travel period.

Improvement in inflation is likely to get a boost from the developments in the Mideast as well. Indeed, because of excess production by OPEC and weak demand globally, oil prices have fallen by 20% over the past year. The easing of tensions in the Mideast should allow prices to slip even further (page 34).

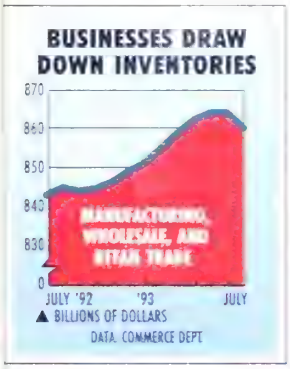
WATCH FOR THE FED TO HOLD STEADY

The August CPI data are likely to be a key topic of talk when policymakers at the Federal Reserve sit down for their next meeting on Sept. 21. Some Fed officials viewed the August rise as a disappointment. But the absence of any true price pressures—along with the desire to calm the bond market—suggests that the central bank will hold its policy steady.

That decision is also likely because the monetary bosses should see little need to give a boost to the economy. The latest data on retail sales suggest that consumers are still out shopping (chart). And the Commerce Dept.'s summer survey on plant and equipment spending shows

that businesses are planning to invest more—not less—in the coming quarters.

Retail sales rose 0.2% in August, and the July gain was revised to 0.3%, up from 0.1%. Car-buying was strong, with a 0.7% advance last month. Building materials, food, clothing, and department-store goods also posted increases last month. After adjusting for prices, retail sales have risen 5.3% from a year ago.



The rise in retail sales suggests that business inventories continued to shrink in August, after a 0.5% fall in July (chart). Retail inventories declined 1.3%, led by a 4.9% drawdown of car dealers' stock levels.

After adjusting for price changes, store purchases have climbed steadily since their weather-related dip in March. And the initial news for September is encouraging. Sales of U. S.-made cars and light trucks stood at an annual rate of 11.5 million in early September, about the same as in August. And the *Johnson-Redbook Report* says that department-store sales in the first two weeks were up by 2% from August.

So far in the third quarter, real retail sales are growing at a 4.7% annual rate. That healthy pace hardly suggests an economy that is winding down.

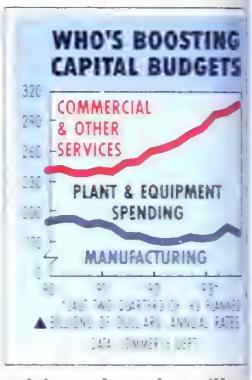
SERVICES HAVE THE URGE TO SPLURGE

In fact, the economy will continue to get a lift from business spending on plant and equipment. Already, outlays for capital equipment have accounted for one-third of the growth in this economy over the past year. And the surge in the production of business computers and accessories has boosted industrial output.

The Commerce Dept.'s survey of businesses taken in July and August shows that plant and equipment spending will increase by 7.1% this year, instead of the 6.4% a vance that was reported in June. If it is carried out, t rise would be the strongest gain in capital investment four years.

Companies plan the biggest increase for this quart followed by a smaller rise in the fourth. The funds w likely go for new equipment, especially machinery th raises the productivity of workers.

The emphasis on improving worker output is mo acute at service producers. The Labor Dept.'s latest r vision to the productivity data showed that nonfarm ou put per hour worked fell 1.3% in the second quarter. B manufacturers alone lifted productivity by a hefty 5.2 It's not a surprise, then, that unit labor costs for all no farm businesses grew at a 2.8% annual rate last quart while factory unit costs slipped by 1.8%.



That split explains why services are leading the spending rush (chart). Service industries—including wholesale and retail trade, finance, and communications—plan to boost outlays by 10.6% this year. Manufacturers expect a 3.4% rise.

Of course, not all of the new money will be spent domestically. Foreign producers of machinery continue to make inroads into U. S. markets. That outside competition, though, will e ert even more downward pressure on capital-goods price which rose only 1.8% in the year ended in August.

It is, however, forces like global competition, as well rising productivity, that make the inflation outlook bright—even as the economy gathers steam to grow at healthy 3% rate. Inflation below 3% seemed impossible few years ago. And who would have bet on mortga rates at 6.5%? But just like the Israeli-Palestinian pea accord, sometimes the unexpected does happen.

THE WEEK AHEAD

HOUSING STARTS

Tuesday, Sept. 21, 8:30 a.m.

Construction of new housing probably rose to an annual rate of 1.25 million units in August, according to economists surveyed by McGraw-Hill Inc.'s MMS International. Despite the lowest mortgage rates in 23 years, starts fell 0.2% in June and a further 2.7% in July. Those drops, along with better weather last month, suggest the August bounceback may be stronger than expected.

FEDERAL BUDGET

Wednesday, Sept. 22, 2 p.m.

The federal government will likely report a deficit of $25 billion in August, nearly identical to the $24.7 billion posted in August, 1992. Government finances are benefiting from better-than-forecast tax receipts—a result of healthier growth in personal income and corporate profits. Also, the lack of funding for the Resolution Trust Corp. has curtailed outlays for the savings and loan cleanup this year. After August, only one month is left in fiscal 1993, and the Treasury usually has a surplus in September. That means that Washington could have a deficit of less than $260 billion in 1993—the smallest government gap in three years.

CAR SALES

Thursday, Sept. 23

New domestically made cars probably sold at an annual rate of 6.6 million in the middle of September. That's a b better than their 6.4 million pace earli in the month, but below the 6.9 milli pace averaged in the second quarter.

DURABLE GOODS ORDERS

Friday, Sept. 24, 8:30 a.m.

New orders for durable goods likely i creased by 1.5%, forecast the MM economists. Bookings fell 3.1% in Jul but most of that decline was in demar for aircraft. New orders for cars a light trucks probably carried the day August. But because these vehicles a shipped out quickly, unfilled orders f durable goods probably continued slide in August. In July, the backl dropped for the fifth consecutive mont sliding 0.2%.

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BREAD AND PEACE

A RUSH TO BEAT SWORDS INTO PROFITS

Days after the signing of the interim agreement between Israel and the Palestine Liberation Organization, the gritty West Bank town of Ramallah looks like a liberated zone. Long-outlawed Palestinian flags fly from the lamp posts, and scrawled revolutionary slogans cake the imposing stone walls. The setting may not look auspicious for commerce, but in one building nestled on the rocky hillside, Daniel Issa, a local soft-drink magnate, is getting a headstart on nation-building.

Seated at an enormous rounded desk, Issa fields phone calls from Palestinians and Israelis alike. He's talking with Coca-Cola Co. and PepsiCo Inc. about bottling franchises for the territories. And he's establishing a vast industrial park he hopes will attract investors. Issa rubs shoulders with PLO heavyweights on the Palestinian Industrial Council, a kind of shadow ministry of industry. "I'm recommending to our leadership that we give a lot of incentives to multinational investors," he says.

AFTER RABIN'S AND ARAFAT'S HISTORIC HANDSHAKE, YEARS OF BITTER POLITICAL DISCUSSIONS ARE STARTING TO GIVE WAY TO TALK OF A MIDEAST FREE-TRADE ZONE

HIGH TECH ISRAEL IS TECHNOLOGICALLY ADVANCED, WITH A $40 BILLION ECONOMY—20 TIMES THAT OF THE TERRITORIES

AGRICULTURE EASING TRAVEL RESTRICTIONS ON PALESTINIANS WOULD OPEN LOW-WAGE JOBS NOW DONE BY ISRAELIS

UNEMPLOYMENT		**PER CAPITA INCOME**	
	Israel 11%		Israel $10,9
	West Bank 40%		West Bank $1,7

SOURCE: UNITED NATIONS DEVELOPMENT PROGRAM

:a and other such entrepreneurial stinians are key actors in the bold riment now under way in the Middle After the pomp in Washington and euphoria felt around the world, a of the enormity of the task ahead ttling in. As Palestinian leaders pre- to assume real responsibilities in long-disputed territories, they feel unting pressure to move quickly. For now, they're taking a decidedly e-market, pro-business approach. If y succeed, one of the world's most ngerous hot spots will be cooled . The extremist Muslim move- nt that thrives on despair will e its driving force. Already, l prices have fallen sharply as the market reflects a decline in regional volatility (page 34). The bitter political discussions that have prevailed in Jerusalem for decades are giving way to talk of free-trade zones encompassing not only the Palestinian areas and Israel but also a substantial common market including Jordan, Lebanon, Egypt, and even hard-line Syria.

But cementing the long-dreamed-of peace will require new economic stability—and growth. While some 65% of the residents of the territories approve of the accord, a hard core of Muslim militants and fervent nationalists remain violently opposed. If there is economic development and stability, "people will work and not [flock to] fundamentalism," says Hasib Sabbagh, a Palestinian construction mogul based in Athens. Adds Hanna Siniora, now head of the European Palestinian Chamber of Commerce: "If we don't succeed in this, all our other efforts will fail."

So whatever can be done to buy the peace seems worth the price. And fortunately, the price tag doesn't appear to be all that steep. The 2,300-square-mile territories encompass only a $3 billion economy. The $5.5 billion in foreign aid and private investment that the World Bank estimates will be needed over the next 10 years seems easy enough to raise (table, page 35).

Already, the French have hinted that they will fund an airport near Yassir Arafat's future headquarters in Jericho and a port in Gaza. The overseas Palestinian community can be counted on to kick in much of the $2.5 billion in private investment that the World Bank thinks the territory can absorb over the next decade. Although many people in the territories are poor and live in squalid conditions, there is money both there and abroad.

TOURIST ATTRACTIONS? One eager overseas Palestinian is Nablus-born, U. S.-trained Munib Masri, a former Phillips Petroleum Co. executive who runs a construction-and-manufacturing conglomerate based in Amman, Jordan. Like many Palestinian businessmen who have prospered abroad, he feels an obligation to help create a new nation. Even before the peace accord, he sent a team to scout business prospects from construction to tourism, and he hopes to set up a second headquarters for his group near Jerusalem. "The diaspora taught us a lot, and we owe it to Palestine," he says. "I would love to be the project manager personally to build a road or school or anything."

And Jaffa-born, Kuwait-based Abdul Muhsen Kattan, whose businesses range

NUFACTURING GAZA'S INFRASTRUCTURE IS DECREPIT. ORDER CURBS HAVE STRAINED THE JOB MARKET

TRADE THE TERRITORIES ARE WIDE-OPEN FOR ISRAELI COMPANIES, BUT PALESTINIAN VEGETABLES ARE BANNED IN ISRAEL

SS DOMESTIC DUCT AND GAZA	Israel	$60 BILLION	**LIFE EXPECTANCY**	Israel	75 YEARS
	West Bank	$3 BILLION		West Bank	65 YEARS

EXPERTS SAY INDUSTRIALIZATION IN THE TERRITORIES WILL GO SLOW, AND MOST ECONOMIC GROWTH OVER THE NEXT YEAR OR SO WILL COME FROM A HOUSING BOOM SPURRED BY STABILITY AND RELAXED ZONING

from real estate to investment banking, is discussing with other Palestinians the idea of establishing a holding company to identify projects for prospective Palestinian investors. The motive, Kattan says, is not mainly profit but "to go and help our people. There are many like me."

The people certainly need the help. After 25 years of Israeli occupation and five years of the violent *Intifada,* or uprising, the territories are decrepit. Telecommunications, the electrical grid, water, and sewers are all about five decades out of date. Experts figure unemployment is running as high as 35%. Upward of 300,000 Palestinian refugees from the 1967 war may now flood into the territories, further straining the job market and the housing stock.

Nor are political problems among the Palestininans and with the Israelis resolved. Israeli settlements will remain as flashpoints in both Gaza and the West Bank. At a recent panel discussion with Israeli and Palestinian academics, Khalil Shikaki, an adviser to the PLO on security matters, predicted that attacks on Israeli settlers by Gaza radicals were inevitable and could still torpedo the accord.

DELICATE TASK. Arafat's arrival on the scene could also make political waves. He is expected to bring his close associates and his bureaucracy from Tunis to the territories and could face a delicate task in appeasing local leaders who have developed followings of their own and considerable independence in recent years. Faisal Husseini, the top Palestinian leader in the territories, recently threatened to resign from the negotiating team over Arafat's secretive handling of the peace talks.

There is also some concern that Arafat will continue the lax management style that has apparently helped dissipate much of the PLO's multibillion-dollar fortune. One worry in particular is that he will favor the politically well-connected with choice business opportunities. But some close observers of Palestinian affairs think the PLO chief knows this is his last chance and will reform his ways.

TAX SOURCE. As for the Israelis, whatever powers over the Palestinians they are giving up, they still hold the fate of the territories in their hands. In the short term, many Palestinians say, it is crucial for the Israelis to reverse their policy of closing off the territories. That has shut thousands of Palestinians out of Israeli construction and other industries—throwing nearly one-third of the 350,000 Palestinian wo force out of a job.

Indeed, for the Palestini economy to succeed, Isra will have to relinquish mu of its economic control. F years, Israel has run the te ritories as a captive mark for its products, and squeezes much more rev nue out of the territories taxes than it puts back. T territories are basically free-trade zone for Isra companies, but Palestini vegetables and other pro ucts are banned from Isra Exports from Israel to t territories approach $1 b lion a year, while only $2 million in textiles, buildi materials, and other pro ucts go the other way. T Israelis also keep cheap Jo danian foodstuffs, hous hold goods, and cement out of the ter tories. Now, Israel will be und pressure from the international comm nity to change this, and such officials Central Bank Governor Jacoab Frank are urging such a course. But there not yet a guarantee that the politicia and powerful lobbies will go along.

Even with all the pitfalls, much goo will exists on both sides—particular among the technocrats. Israeli economi Haim Ben Shahar, who chaired a member government committee on a tonomy, urges dropping barriers to P estinian exports, including tomatoe cucumbers, and other agricultur goods. He believes that in the long ru free trade with the Palestinian are would be good for Israel. "The pie w increase on both sides," he says.

If the Israelis play their cards righ

PEACE DIVIDEND? HOW ABOUT OIL AT $10 A BARREL?

What's the bottom on oil prices? Since March, the per-barrel cost has slid from over $20 to under $17. Now, peace in the Middle East is adding to the forces driving prices down. Some analysts figure $10 is a possibility—a price oil hasn't hit since the last boom came to an end in 1986.

Prices are dropping largely because OPEC is unable to cut production in Iran, the United Arab Emirates, Nigeria, and other cash-short members—a problem made worse by rising North Sea output and light demand. OPEC is now pu more than a million barrels per da the 23.5-million-barrel cap me agreed to in June. "Right now, OP no credibility," says Lawrence Go president of the Petroleum Indust search Foundation.

MORE PUMPING? The sudden impro in Middle East peace prospects r complicating OPEC's quest for price ity. After trading above $18 per ba much of the summer, crude oil falling apart on the news of talks b

could be big winners. With rab boycott fading, Pales- s could become Israel's head to the lucrative Per- Gulf markets. Some Israeli essmen are already estab- g close ties with their Pal- an counterparts. Benny chief executive officer of Industries Ltd., Israel's t industrial concern, says close to forming a joint Is- Arab-Palestinian company would invest in the territo- He hopes eventually to list ck in the U. S. "We started ing a year ago," he says. new we had to go into the markets."

RTY BOOM. Amid all the ainty, there is reason for sm. The Palestinians are ucated and energetic peo- hey have waited a long or a crack at having their tate, and they are bound to heir wallets. If the Israelis eir troops out of populated and the *Intifada* dies away, there be at least a miniboom. eady, choice homesites in Ramallah tripled in price, to $180,000. In a hellhole by any definition, a of prime commercial property for as much as $1 million. If all well, the World Bank foresees eco- growth exceeding 3% per year, g the current $1,700 per capita an- ncome to above $2,300 in a decade. mist Shahar predicts that growth ultimately be as high as 10% .

experts say that serious industri- on in the territories will proceed . In the next year or so, economic h is likely to come largely from a ig boom generated by political sta- and an easing of tight Israeli zon- strictions, particularly in the Gaza Strip. New government buildings in Jericho in the sultry Jordan Valley would also fuel construction. Another possible area of early growth could be tourism—the mainstay of the economy before 1967. Such revered cities as Bethlehem, Jerusalem, and Hebron, the site of the tomb of Abraham, have huge potential for attracting both Western and Muslim visitors.

Much of the industrial investment, as it trickles in, is likely to be closely tied to Israel, whose $60 billion economy is 20 times that of the territories. The Israelis are already trying to turn the territories, especially Gaza, into a kind of *maquiladora* area to take advantage of cheaper labor costs. The Israelis are encouraging the Gazans to shift from vegetables into the labor-intensive cut-flower industry for the European markets. Also, there are many Israeli-Palestinian partnerships in clothing and textiles.

Although they are still skittish about discussing their contacts, many Palestinians are now scrambling to cut deals with Israelis. While they find the prospect of being junior partners irritating, Palestinian economic thinkers say they are willing to accept such relationships as long as the Israelis are sincere about opening their markets to Palestinian goods. "We know we can't jump from the bottom to the top of the ladder," says Samir Abdullah, an economist and a member of the Palestinian negotiating team. "We just seek fairness and then want to let the law of comparative advantage play out."

Here and there, one can find investment just waiting to be made. Vahan T. Ohanessian takes a visitor through his family's $18 million Ohanessian (TAKO) Paper Industries plant in Ramallah. He proudly points to a huge disposable diaper machine that he designed himself and had built in the factory's workshop. Ohanessian says he has lost money since the *Intifada* began in 1988 because his workers are afraid to report for night shifts and miss day after day because of political strikes and funerals. Gesturing out at an empty yard, he says that just before the *Intifada,* he was poised to add capacity there that would have more than doubled the factory's present work force of 120. Boasts Ohanessian: "If they leave us free, we can compete with anybody."

By Stanley Reed in Ramallah, with Neal Sandler in Jerusalem, John Pearson in New York, and Owen Ullman in Washington

PALESTINIAN CONSTRUCTION MOGUL SABBAGH: JOBS WILL KEEP PEOPLE FROM FLOCKING TO FUNDAMENTALISM

PAYING FOR PEACE

The World Bank estimates that at least $5.5 billion in foreign aid and private investment is needed for the territories over 10 years. Officials say it could break down annually as follows:

PRIVATE AID AND INVESTMENT
$250 million

EUROPEAN COMMUNITY
$125 million (already pledged)

GULF STATES
$50 million to $100 million

JAPAN
$50 million

U.S.
$50 million to $100 million

NORDIC COUNTRIES
$25 million to $50 million

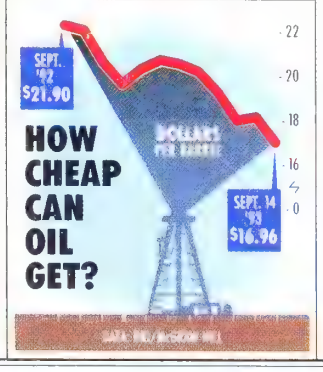
WORLD BANK
$25 million

DATA: WORLD BANK

the PLO in August, coupled evidence of falling demand. If ads, analysts say, prices could er.

try to regain its hold on the a Sept. 25 meeting in Geneva. s energy minis- Parra, proposes duction to 24.5 rels per day for quarter. That room for Ku- ep replenishing leted treasury. l "would have a effect," says gy Corp. Presi- t L. Keiser. ill afford to let oil prices plummet. A drop to $10 would cost its members $80 billion a year. So while mistrust between Iran and Saudi Arabia is even higher than usual these days, many analysts expect OPEC will patch things up. "OPEC is at its best when the oil market is at its worst," says Kidder, Peabody & Co. analyst Bernard Picchi. But even if OPEC pulls off a deal, stability may be short-lived. Dealing with overproduction, empty coffers, and spreading Mideast peace in one simple handshake is a lot to ask, even of a cartel.

By Peter Burrows in Houston

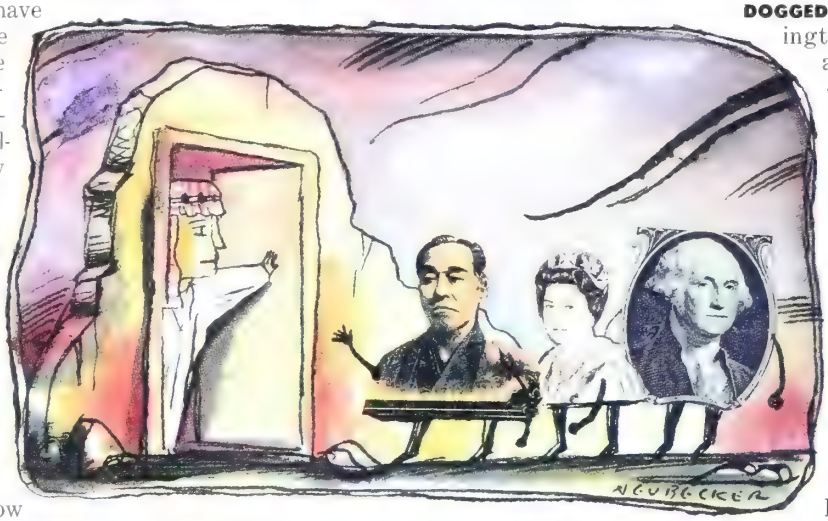


Commentary/by Amy Borrus

HOW CLINTON CAN HELP KEEP THE PEACE

It didn't take long for the carping to start. Even before Israel and the Palestine Liberation Organization signed their historic peace agreement on the White House lawn on Sept. 13, foreign policy insiders were sniping that President Clinton and Secretary of State Warren M. Christopher were mere spectators in the diplomatic drama. If dealmeisters George Bush and James A. Baker III were still in charge, the talk went, the U. S. would have maintained stewardship of the secret negotiations.

But it may not have been a bad idea to have America wait in the wings through the early phases of the reconciliation. The Israeli-Palestinian accord may ultimately prove more durable than one achieved by Presidential arm-twisting and shuttle diplomacy. "The fact that the parties sorted out a lot of tough issues on their own means they'll feel more responsibility for them," argues William B. Quandt, a senior fellow at the Brookings Institution, a Washington think tank.



Now that Israel and the PLO have taken the critical first steps toward mutual recognition and self-rule for Palestinians, however, it's time for Washington and other nations to play far more prominent supporting roles. Securing the peace will require that the U. S. maintain its large financial presence in the region—and coax others to pony up. Otherwise, a comprehensive Middle East settlement could still be an elusive dream.

"UP THE ANTE." For starters, Uncle Sam can continue to contribute the $5 billion in combined annual assistance that America has provided Israel and Egypt since the 1978 Camp David accords. Trimming aid now—as some on Capitol Hill suggest—would unnerve already-anxious Israelis and undermine Egyptian President Hosni Mubarak just as Egypt's courageous peace with Israel has been vindicated. To set an example for others, Washington ought to boost the modest $25 million a year it has been channeling to private charities in the West Bank and Gaza Strip. "To be a leader in this, we have to up the ante a bit," says Peter Gubser, president of American Near East Refugee Aid, a private Washington-based organization that provides financial assistance to the region's refugees.

There are limits to what the U. S. can do, though. Politically and fiscally, it was easier at the time of the 1978 Camp David agreement to plow substantial sums into the Mideast. The budget deficit was not as daunting. And in a cold-war context, it was worth the enormous investment to woo Egypt away from Soviet influence and prevent another Middle East war. Now, with Washington facing serious budget constraints, it can't be expected to provide the bulk of the $3 billion or so that the World Bank and other institutions think will be needed over the next decade to shore up the crumbling infrastructure of the West Bank and Gaza.

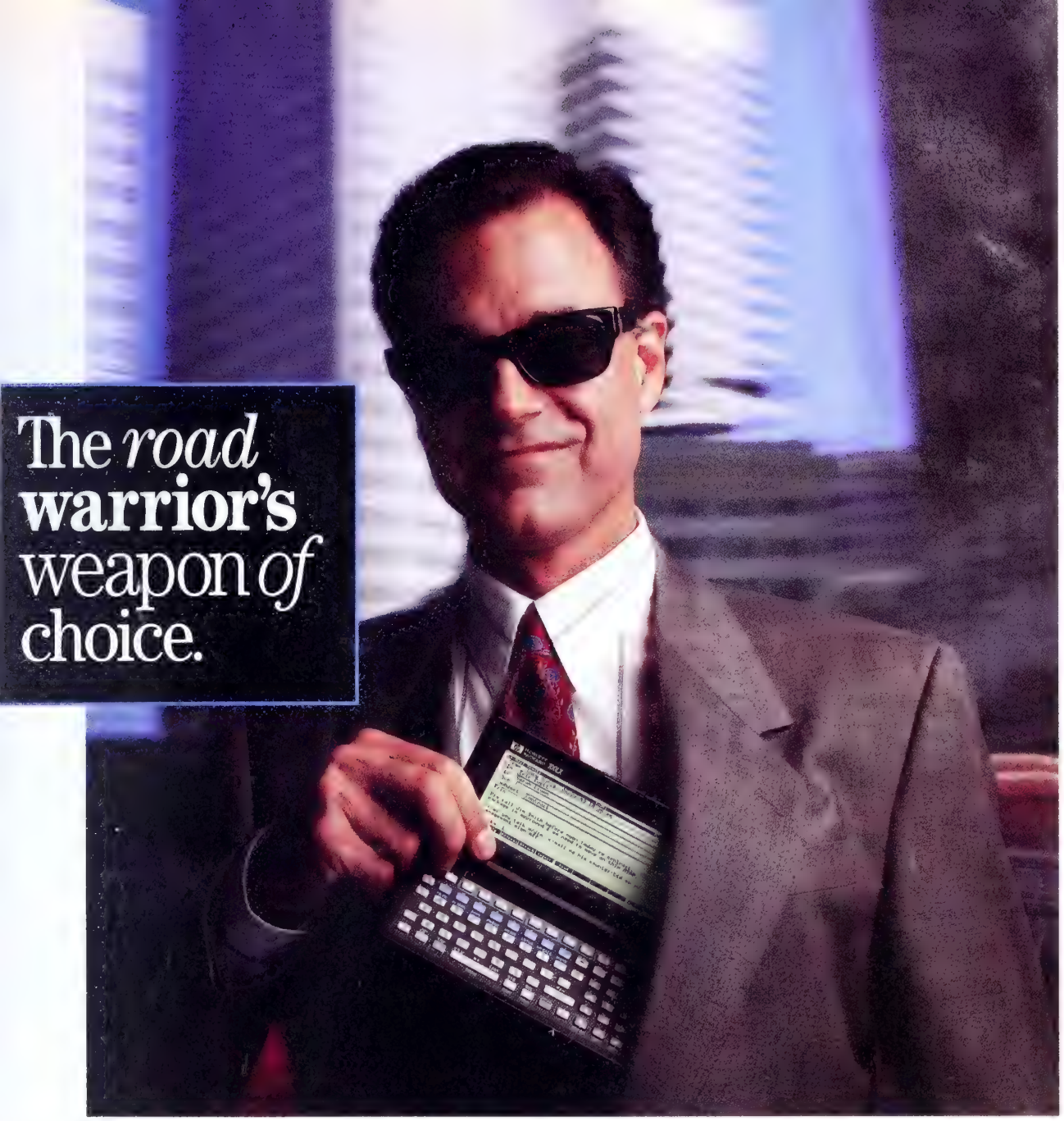
What can the Clinton Administration do? Initially, provide some seed money and marshal generous pledges from wealthy Arab states, Europe, and Japan. The President's suggestion of a donors' conference is a good first step. Despite their current-account deficits and depressed oil prices, the Gulf States have the wherewithal to provide the lion's share of the money—and it's in their self-interest to do so. Creating economic stability in the West Bank and a newly autonomous Gaza would blunt the appeal of Islamic fundamentalism—the gravest threat to regional stability. And the Europeans, longtime supporters of the Palestinian cause, also could be called on to put their money where their mouths have been.

> The U.S. must provide seed money—and line up generous pledges from wealthy Arab states, Europe, and Japan

DOGGED DIPLOMACY. If Washington can legitimately avoid additional financial obligations, it cannot dodge new diplomatic responsibilities. With the PLO in line, the U. S. can urge the rest of the Arab world to begin to normalize relations with Israel, including ending the economic boycott. Dogged, hands-on diplomacy will be needed to persuade Israel and Syria to move to resolve the trickier issue of the Golan Heights. The myriad contacts, forged over decades, that made it possible for Israelis and Palestinians to mediate their own deal simply don't exist between Jerusalem and Damascus.

Much of the critical scut work to lay a foundation for progress can be accomplished by foreign service professionals at the State Dept. But there inevitably will be roadblocks along the way that require a high-profile Presidential assist. From the start of his Presidency, Bill Clinton has been reluctant to let foreign policy overshadow his cherished domestic agenda. And he could easily be distracted by his drive for health-care reform and his effort to reinvent government. But Clinton has the first opportunity in a generation to help engineer a genuine regional political settlement in the Middle East. It would be a mistake to let it slip from his grasp.

Borrus covers foreign policy from Washington.



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THE DIGITAL DERBY

Viacom's proposed acquisition of Paramount Communications would make it a diversified multimedia powerhouse. Here's how the major players shape up:

PARAMOUNT VIACOM Unrivaled in national distribution, with 7 cable networks and 12 broadcast stations. But weaker in local distribution, with only 1.1 million cable subscribers. Strong programming through Paramount Pictures.

TIME WARNER No. 1 in programming, with Warner Brothers and Home Box Office. Also strong in local distribution, with 7 million cable subscribers. Weak in national distribution, with no basic cable or broadcast networks.

NEWS CORP. Superb national distribution, with Fox broadcast and cable networks. Developing similar overseas distribution with satellites. Weaker in production, with 20th Century Fox studio.

DATA: PAINEWEBBER GROUP INC., BUSINESS WEEK

THE ENDING OF PARAMOUNT'S SCRIPT MAY NOT BE WRITTEN YET

Other players could still break up Viacom's ambitious deal

That loud thud on Sept. 12 was the sound of the biggest shoe in the media world dropping. The noisy buzz that followed came from a thousand media mavens guessing whether another one would follow.

After years of resolutely refusing to do a deal, Martin S. Davis finally agreed to merge Paramount Communications Inc. with another media company. The chairman of Paramount succumbed to the blandishments of Sumner M. Redstone, billionaire owner of Viacom Inc., which will acquire Paramount in a stock-and-cash deal worth $7.7 billion. The new Paramount Viacom would be a multimedia colossus that could redraw the competitive map in media.

PRICELESS GEM. That is, if the other shoe doesn't drop first. Executives close to Barry Diller, chairman of QVC Network Inc., say he has considered making an offer for Paramount for some time, possibly with the backing of his partners, cable titan John C. Malone and operator Comcast Corp. Many observers believe Davis acceded to a merger in part to head off such a bid. Now, insiders say Diller is weighing a counteroffer. And other U. S. and European media companies could come out of the woodwork.

Why such a stir? Mostly because Paramount is a priceless asset for companies hoping to compete in digital media. But rival bidders may also be goaded by Viacom's stock, which dropped from 66, when Davis and Redstone set the terms of the deal, to a recent 61½. Since most of the offer is in the form of stock, that reduces the value of the deal from $69 for each Paramount share to about $65. Stock declines are not uncommon in such deals. But Viacom was also hurt by charges that Redstone buoyed his stock with heavy share purchases in the two months before the deal. Viacom insists Redstone abided by all regulations.

Still, if the value of the deal sinks to $60 or lower, a competing bid could look plausible. Friends argue that Diller, who once ran Paramount Pictures Corp. under Davis, is superbly qualified to steer the company into new ventures, such as a fifth broadcast network. Wall Street seems undecided about the likelihood of a bid. After an early surge, Paramount's stock retreated, but then closed up ⅝ on Sept. 15, at 64½.

REDSTONE AND DAVIS: UNLIKELY ALLIANCE? OR AN INSPIRED ONE?

Indeed, most observers see Viacom and Paramount as an inspired match. The company would be the world's leading cable programmer, with networks such as MTV and Nickelodeon; the No. 1 book publisher, with Simon & Schuster Inc.; and one of Hollywood's premier producers, with Paramount Pictures. With cash flow of more than $1 billion and only $3.3 billion in debt, Paramount-Viacom may be better positioned to capitalize on multimedia technology than even Time Warner Inc. or Rupert Murdoch's News Corp. (table).

"GREAT CASE STUDY." For all its logic, though, the merger still seems a hurried affair. The agreement, for example, gives no job titles to the current presidents of Viacom or Paramount. Nor does it provide a timetable for the retirement of Davis, 66. Even with a much clearer definition of roles, the 1989 merger of Time Inc. and Warner Communications Inc. was later doggedly by clashes in the executive suite.

Observers doubt the strong-willed Davis can coexist for long with the equally tenacious Redstone. "This is going to make for a great case study at Harvard business school," says one of the bankers involved in the deal.

For now, Davis will be CEO, reporting to the 70-year-old Redstone, who owns 69% of the new company's voting stock. Viacom President Frank J. Biondi Jr. and Paramount President Stanley R. Jaffe will be members of a transition

that will figure out how to combine
tions. Most observers predict that
Davis retires, Redstone will ele-
his protégé Biondi to CEO. But Red-
doesn't mind leaving such matters
"What we decided is that, rather
facing those issues now, we'd just
e deal," he says.
yond such details, Redstone will
to contend with a partner with
different from his on how to pre-
for the digital future. Davis gener-
eschews strategic partnerships that
ve selling equity stakes, such as
West's $2.5 billion alliance with Time Warner. "Why should we sell off 25% of our assets to anyone?" he asks. Yet Redstone recently considered a $2.4 billion deal that would have given Southwestern Bell Corp. and Crown Media Inc. each a stake in Viacom's cable properties. That deal fell through. But Redstone says he is talking to three other phone companies about alliances.

MORE FLEXIBLE. Of course, with Redstone owning a majority of the stock, such disagreements may be moot. And observers note that—given their reputations for mulishness—Redstone and Davis have already shown remarkable flexibility: "Both guys had to cross a Rubicon," says Steven Rattner, a general partner at Lazard Frères & Co., which advised Paramount. "Redstone had to accept paying a premium. Davis had to accept giving up control."

Sheer willpower has allowed Redstone to assemble a giant, and Davis to preempt a bid from his former employee, Diller. But as other warriors-turned-partners have found, living together is the true test of any marriage—especially one that's hastily arranged.

By Mark Landler in New York, with Ronald Grover in Los Angeles

ISM

IT TOURIST SEASON
OPEN SEASON IN FLORIDA?

ent murders of foreigners are chilling travel and other businesses

uns, not fun in the sun, are gar-
nering headlines around the
world and threatening Florida's
illion tourism business. A spate of
ly publicized murders—the latest of
itish tourist shot on Sept. 14 in a
area outside the state capital of Tal-
ssee—has Florida officials scram-
to save the state's top
stry. The crime wave
wiped out what was
g to be a banner year,"
nts Florida Commerce
etary Greg Farmer.
re are going to be
double-digit cancella-
from Europe."
part of the state's
age-control program,
rnor Lawton Chiles or-
d 840 additional police
auxiliary state officers
eef up patrols around
or airports, on high-
s, and near rest areas.
ew 1-800 telephone line
elding calls from wor-
prospective visitors.
Lieutenant Governor
dy MacKay appealed
onally to President Bill
ton and Attorney Gen-
Janet Reno for a $4
on federal grant to ex-
d police patrols in Dade County,
re a German tourist was murdered
Sept. 8 on a Miami freeway. Farmer
is busily citing statistics that fewer
0.5% of Florida's 41 million visitors
victims of violent crime.
verseas tourists, nonetheless, are ex-
ed to cancel in droves. There were
British cancellations in the immedi-
wake of the murder of Gary Colley, 34, killed as he attempted to drive away from two robbers—becoming the ninth foreign tourist murdered in Florida since last fall. But given the lurid headlines in Britain's tabloids and the front-page play even in London's staid newspapers, the Foreign Office acknowledges its 1993 estimate of 1 million British visitors to Florida is overstated. Indeed, Britain's Foreign Office in April took the unusual step of issuing a travel advisory on Florida—its first ever for the U. S.—following the murder of a German tourist who was run over on a Miami street.

The state has beefed up police patrols of highways and airports and created a 1-800 line to field calls from worried prospective visitors

Some tour operators are already feeling the impact. Bookings are down 30% to 50% from where they should be for November through April, says Jeff Laylon, of Go America Tours Inc., a company that books mostly German tourists. "We don't plan on it being a good winter," he says. Roberto Willimann, vice-president of Miami-based Specialized Travel Systems Inc., says that summer business was already down by 20%.

PRECAUTIONS. The Florida murders even reverberated on Wall Street. Disney World, which draws 5% of its visitors from Europe, reports no change in its visitor counts. But Goldman, Sachs & Co. analyst Richard P. Simon lowered his 1993 earnings estimate for Disney by 7¢ a share, citing the vulnerability of its theme parks to U. S. recession and bad publicity from the violence.

Some savvy business travelers are also reconsidering visits to Miami. Chicago-based Baxter Healthcare Corp. issued its first-ever travel advisory for a U. S. city after one of its executives, Thomas Walsh, was robbed at gunpoint on a Miami expressway by the same trio arrested for the Sept. 8 murder of German tourist Uwe-Wilhelm Rakebrand. The advisory warns employees to take extra precautions in Miami if they are renting a car or traveling at night.

All this means bad news for Florida's economy. Miami has been trying to build on its appeal as an international hub for doing business in Latin America. Now, worried Miami economic-development officials are canvassing 300-plus prospects to gauge their concern about crime. Last April, three European companies, which could have added as many as 100 jobs to the area, scratched Miami off their lists because of crime. It's an old lesson, but Florida is learning it anew: Everyone knows crime doesn't pay—in Florida's case it's costing plenty.

By Gail DeGeorge in Miami, with Julia Flynn in London

STEVE STARR—SABA

LOUCKS' LOUSY YEAR

MARCH Baxter pleads guilty to cooperating with the Arab boycott of Israel, agrees to pay $6.5 million in fines.

APRIL Defense Dept. unit says it may bar Baxter from new business. Separately, Premier Health Alliance says it will cut its Baxter business.

AUGUST Veterans Affairs Dept. bans Baxter from competing for new contracts with federal agencies for up to three years, saying Baxter misled the VA over a 32-month period. Baxter contests the actions.

SEPTEMBER CEO Loucks and other managers take pay cuts of up to 25%. Baxter freezes hiring and warns of a $13 million restructuring charge.

EXECUTIVE SUITE

BACKED AGAINST THE WALL AT BAXTER

CEO Loucks says he'll stay on. But investors are growing restless

At Baxter International Inc.'s annual meeting in April, Vernon R. Loucks Jr. drew a pointed response when he introduced himself as the company's chairman and chief executive officer. "Not for long," shouted a shareholder.

Indeed, investor anger was palpable at the meeting, largely because Baxter had just paid $6.5 million in fines and pleaded guilty to cooperating with the Arab boycott of Israel. But Loucks ignored the outburst and plowed ahead with the meeting—extolling Baxter's strategy and his fitness to lead the company in a time of wrenching change. By the end of the session, the tone had changed dramatically: Shareholders gave him a standing ovation.

Nobody's clapping now. In the wake of the Arab boycott settlement, the Defense Dept. Personnel Support Center announced it was banning Baxter from new business. Similarly, the 183-hospital Premier Health Alliance on Sept. 10 awarded a $32 million Baxter contract to rival Curtin Matheson; it says Baxter also stands to lose a $14 million contract for medical gowns and a $40 million c for surgical trays. And Baxter is c testing charges by the Veterans Adm istration, which has accused the com ny of providing products that were part of its contract. The VA has banr Baxter from doing new business most products with federal agencies the source of $130 million in reven last year—for up to three years.

"NO MAGIC BULLET." Meanwhi Baxter's hospital supply business, be by price-cutting and lower volumes, h hit a wall. This year, analysts expect t company to report $559 million in inco from continuing operations, down slig ly from 1992, on a 6% increase in sa What's more, BUSINESS WEEK h learned that Baxter may be liable more than $350 million to compens hemophiliacs infected by HIV-tain clotting agents marketed by Baxter a other suppliers (box).

With trouble all around, attention focusing on the man in the middle: Loucks. On Sept. 7, Loucks announ he would run Baxter's hospital sup business himself, dispatching Chief erating Officer James R. Tobin to fo on strategic issues. At the same ti Loucks axed his own salary by 25%. Baxter's stock fell even further, to on Sept. 15 from $35 before the boyc settlement. "The investment commu is saying: 'Horrors, don't step in, s out,'" says one disgruntled shareholc

Loucks says he'll stay put. He rec ly stepped down from the board of Y University after student protests ab his involvement in the Arab boycott. at Baxter, "I will be here doing the b I can, the best way I know how," says. "The [Baxter] board has been tremely supportive." Board members

THE HIGH PRICE OF BAD BLOOD

It looks as though Baxter International Inc. is about to take another hit. Within weeks, it may be forced to reserve hundreds of millions of dollars to help redress one of the saddest accidents in medical history: the infection of thousands of hemophiliacs with HIV-tainted blood-clotting products.

The National Hemophilia Foundation, representing more than 10,000 members affected by AIDS, has set a Sept. 30 deadline for Baxter and four other suppliers to lay out a plan for establishing a fund to compensate hemophiliacs who contracted AIDS through clotting agents. Sources involved in the secret negotiations have told BUSINESS WEEK the NHF is demanding $5 billion, of which some $1.5 billion would come from Baxter and three other suppliers, and the rest from the federal government.

Medical suppliers extract clotting agents from plasma, then sell them to hemophiliacs, who inject the products to arrest bleeding. The risk of AIDS infection dropped dramatically after new heating procedures were instituted in 1983.

But in January, a Tampa (Fla.) jury awarded $2 million to the family of 11-year-old AIDS victim Jason Christopher, who died in 1992 after getting AIDS from clotting medication produced by Armour Pharmaceutical Co. Armour is considering an appe

HIV-tainted clotting factor could cost Baxter as much as $350 million

Baxter CEO Vernon Loucks ackno edges the NHF negotiations but wo comment on the details. "The issue what is the size of the pool, and wh role should we play," Louc says. "We have absolutely indication of how large t pool should be."

Sources involved in t talks, though, indicated th Baxter could be on the hc for $350 million. Other m ers negotiating with the N include Miles Inc., Alp Therapeutic Corp., Immu U. S., and Armour. Spok men for Miles and Alpha say that th do not expect the pool to reach $5 lion. Immuno-U. S. and Armour did comment.

By David Greising in Chic

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not return telephone calls for comment.

How long will the support last? Loucks says he needs time: "There is no magic bullet. You can't turn this thing around overnight." His strategy revolves around cost-cutting and, possibly, restructuring. Loucks is scrapping Baxter's traditional reliance on a product-specific sales force, switching salespeople to cover geographic regions and building large, regional distribution centers. He is focusing on foreign sales and admits that future moves could include the sale of one or more of Baxter's nonhospital businesses. Likely candidates? Baxter's diagnostics or cardiology units, say former executives and analysts.

Critics say Loucks is following the wrong strategy at the wrong time. Baxter is focusing on product distribution at a time when margins are under attack. It recently resumed distributing products made by Johnson & Johnson, 3M, and U. S. Surgical Corp. But analysts say Baxter earns only about a 12% return on distributed products, compared with around 40% for products it makes. Baxter's second-quarter sales growth of 6.5% was nearly twice the industry average, but analysts note that little of that growth will add to the bottom line.

STONE WALL. Another problem: Baxter's ValueLink program, in which Baxter essentially manages a hospital's inventory by supplying products on a just-in-time basis, may be topping out. ValueLink is a high-end service, and customers increasingly are focusing strictly on the bottom line. What's more, hospital buyers see ValueLink as a wedge Baxter uses to supplant competitors products, undermining the purchasing department's clout.

Loucks might be in better shape if he enjoyed a wealth of goodwill among investors and customers. He doesn't. One major investor, the California Public Employees Retirement System, says it has received no response several weeks after writing Loucks a letter seeking an explanation for Baxter's conduct in the Arab boycott and VA matters. "It's been a one-sided communication," says DeWitt Bowman, the fund's investment officer. Loucks says he hasn't seen the letter, but intends to respond.

Big investors don't like to be ignored, though, and they're starting to bare their teeth. "He has presided over a few big disappointments, not just the boycott thing," says the manager of a $5 billion pension fund who recently sold some of the fund's Baxter shares. "I would think his goodwill with investors is pretty much in jeopardy." Loucks has plenty of work to do if he wants investors to start clapping again.

By David Greising in Chicago

HEALTH CARE

WHO WILL COME OUT ON TOP AFTER REFORM?

Companies that already control costs may fare best

To hear the Clinton Administration tell it, everyone wins with health-care reform. The mantra on the Potomac: We'll all pay less and get more. But on Wall Street and among health-care executives, there's a touch more skepticism about what reform will bring. Says one not-so-sanguine analyst, Kenneth S. Abramowitz of Sanford C. Bernstein & Co.: "I don't think there'll be any winners—just various gradations of losers."

Maybe so. But some in health care clearly will handle Washington's changes better than others. Companies that made out like bandits under a laissez-faire regime—drugmakers, for instance—will likely suffer under spending limits and price reviews. Many hospitals will likewise feel the knife. By contrast, outfits that have made cost restraint their *raison d'etre* may do well.

METAMORPHOSIS. One potential winner: Humana Inc., the hospital operator-turned-HMO. On Mar. 1, the Louisville company spun off 76 hospitals and became essentially a 1.7 million-member HMO. In a blink, it eliminated the internal conflict of interest that had hobbled it when it tried to run both for-profit hospitals and health-care plans whose mission was to save customers money.

Humana's focus on HMOs could pay off: Hospitals may lose out as Clinton caps reimbursements under such programs as Medicare and Medicaid. Along with losing such direct payments, t could wind up bearing the cost of s medical bills—for illegal immigra say, who won't be covered by hea care reform. And with a glut of hosp beds spawning vacancy rate up to 50%, hospitals are ha a growth business. "More t half the hospitals here are ready operating in the re complains Duane Dauner, pr dent of the California Association Hospitals & Health Systems.

Smart hospital operators, howev could turn the changes to their adv tage. Columbia Hospital Corp. boos its fortunes by agreeing to acquire mana's Galen Health Care hospi spin-off, forming Columbia Healthc Corp. The merged outfit, r the nation's No. 1 hospa chain, hopes to be one of few operators efficie enough to make money. T there's HCA-Hospital Corp. America. The 96-hospital co pany, based in Nashville, been trimming expenses, it hopes to parlay its cl into profit gains.

Many investors are a betting that reform will be fit HMOs (page 148). Operat such as California-based I International Corp. and B ton's Harvard Commun Health Plan hope to reap gains as universal cover brings people who can't ford insurance into HMOs. neric drug companies, such as A. L. L oratories Inc., that can copy off-pat drugs—and sell their versions at prices—also should prosper.

Many traditional drugmakers, how er, may be vulnerable. Health-care reform could further weaken such outf as Syntex Corp., the West Coast dr maker hard-pressed by the expiratio patents on its main drugs and a dea of new products.

To be sure, the dramatic change Clinton Administration is promis won't come overnight. But one thi clear: Companies that can't save mo may end up on the critical list.

By Joseph Weber in Philadelphia, w bureau reports

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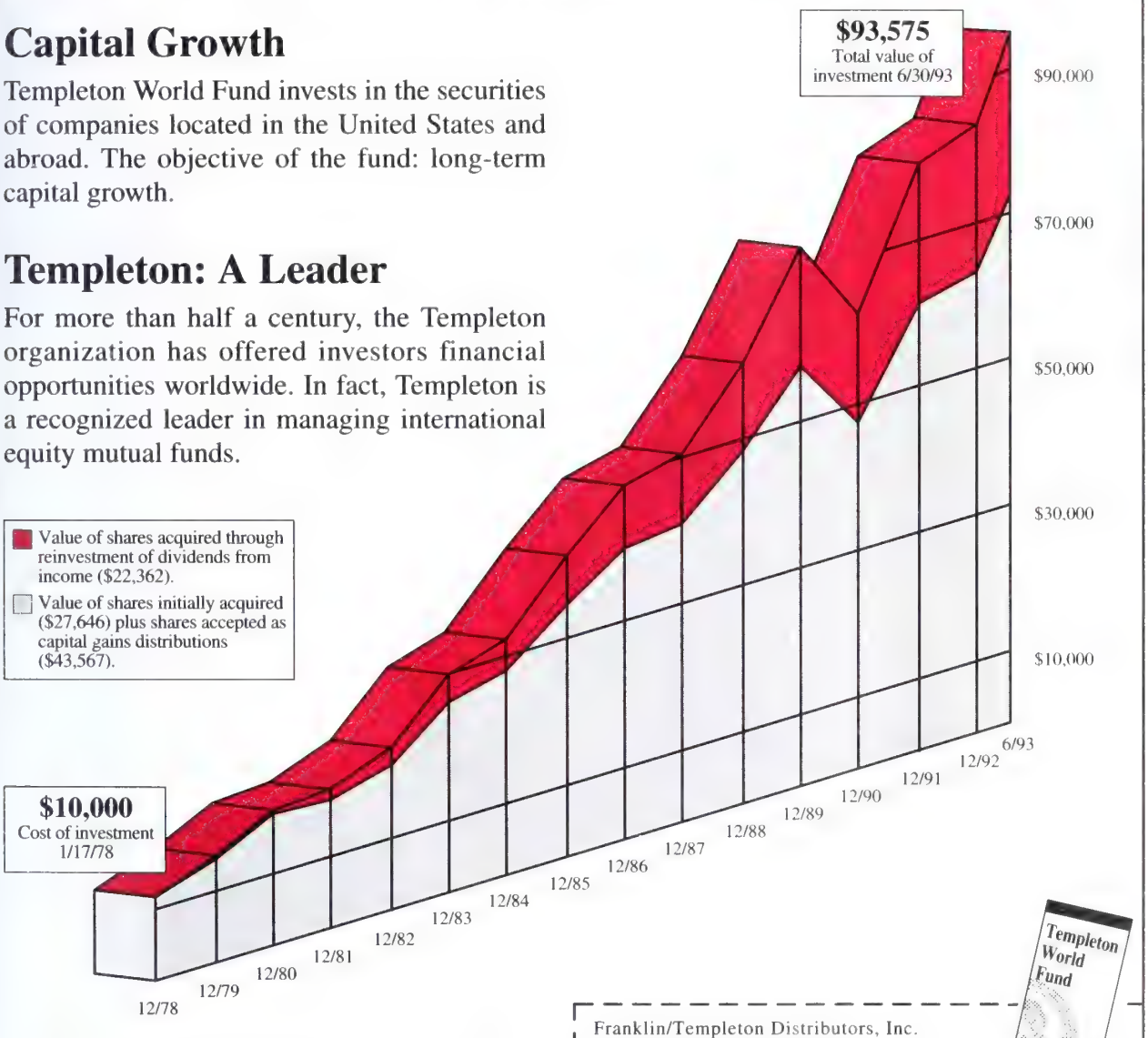

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HEALTH CARE

HOW CLINTON'S HEALTH PLAN GOT THAT WAY

A behind-the-scenes look at who weighed in—and who won out

When President Clinton goes before a joint session of Congress to launch his health-care reform plan on Sept. 22, his audacity is sure to win applause. But that may not be enough to drown out the continuing dissension within the Administration over the shape and cost of the plan.

For months, White House economic and health advisers have battled over the proposal. Clinton's health and political aides insisted on sticking with the President's campaign promise to provide coverage to all Americans without a broad tax increase. But the economists fear that the cost to employers of workers' coverage will kill jobs. They worry that the plan, based on what they call overly optimistic cost projections, will swell the deficit.

Nearing the 11th hour, the differences still aren't resolved. But the economic advisers appear to have lost the crucial skirmish: The President's proposal essentially ignores their objections.

SECRECY. The seeds of that defeat were planted when the President put Hillary Rodham Clinton in charge of his health-reform task force. The move effectively ensured that her clout would mute such critics as Treasury Secretary Lloyd M. Bentsen and Budget Director Leon E. Panetta, both of whom worried about the plan's budget-busting potential.

Hillary Clinton, distracted by the death of her father, gave free rein to health czar Ira C. Magaziner. He aggressively pursued the untested idea that squeezing inefficiencies out of the health-care system can generate huge savings. The task force toiled in secrecy, allowing Magaziner to craft a scheme that received little scrutiny from industry lobbyists or top White House advisers. Some Administration health experts grumble that Magaziner ignored warnings that some of his financing assumptions were shaky.

When Magaziner emerged with his ambitious proposal, the economic advisers were shocked. At a May 21 meeting with the President, the economic team tried to slow the reform juggernaut. Council of Economic Advisers Chair Laura D'Andrea Tyson and National Economic Council chief Robert E. Rubin argued that the plan was too generous and needed a longer phase-in. Bentsen objected to price controls. Panetta warned that Congress would not cut so deeply into Medicare and Medicaid. And despite entreaties from White House officials, the CEA chief and others remain reluctant to testify to Congress that the plan would boost job growth.

Eventually, though, Clinton approved the Magaziner proposal nearly intact, with a slightly longer phase-in. Price controls were dropped, but many economists regard the caps on insurance premiums as only a bit less onerous. The requirement that businesses pay 80% of health-care premiums was hardly debated and survived unchanged.

Moving the plan's financing to sounder footing proved even harder than reining in benefits. After Congress bellowed at the tax hikes in Clinton's budget plan, even economic policymakers knew they couldn't win a major revenue increase to pay for the rich benefits. Trial balloons for a value-added tax and a cap on tax deductions for health benefits were quickly shot down.

OVERRULED. With new taxes off the table, Magaziner and Hillary Clinton scrambled. "They overpromised, and they had to find a way to deliver," says one aide. To generate funds, the White House, over the protests of Health and Human Services Secretary Donna Shalala, returned to Medicaid and Medicare. The White House is considering $238 billion in savings from these programs over five years—a number that stunned lawmakers when they were briefed by Hillary Clinton on Sept. 7.

Administration insiders say the White House knew the Hill wouldn't buy such a big cut but put it in the plan to make the numbers work. Says one White House adviser: "Clinton's saying to Congress, 'If you come up with a better way to pay for this, fine. You'll have to do it in the fall because I don't want to raise any new taxes.' "

Magaziner defends his numbers and maintains that he won over the economists by documenting "huge amounts of waste" in the system. And the plan's subsidies for small employers will help off job losses. Indeed, he says: "When you look at the whole job picture, there will be significant job gains."

Congress is likely to buy the plan. Even political allies worry that legislators won't pay over questions about the plan's financing and economic impact. "What we are seeing up to Congress is a bloody mess," says one aide who helped formulate the plan. The economy may win out in the end—if Congress does the dirty work for them.

By Susan B. Garland and Paul Magnusson in Washington

MAGAZINER: UNTESTED OPTIMIST

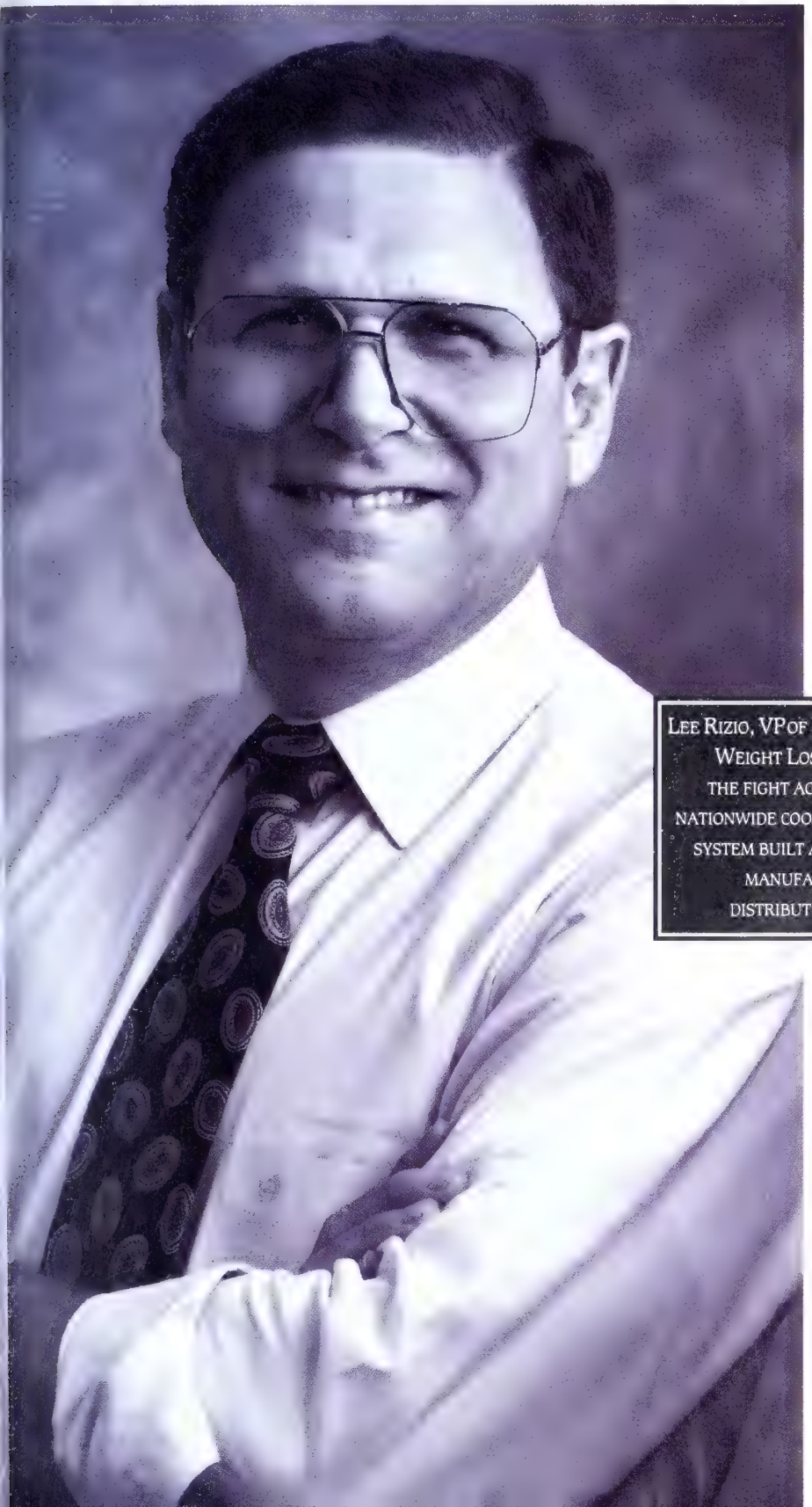
POLITICS AND CIRCUMSTANCE

From the beginning, Clinton's health-care plan was dogged by delays and infighting. These are the forces that shaped its development:

THE PLEDGE	Candidate Bill Clinton promised a plan that would provide universal coverage with savings from improved efficiency—a promise he couldn't break.
TAX BACKLASH	President Clinton pulled back from seeking new revenues to fund health care, after the budget fight underscored public disdain for new taxes.
DISTRACTIONS	The budget battle kept economic advisers from spending time on the health plan.
LEADERSHIP	Hillary Clinton, distracted by her father's death, ceded leadership to aide Ira Magaziner.
GRIDLOCK	Magaziner's 500-member task force bogged things down, and much of its work was ignored.

DATA: BUSINESS WEEK

Software Fighter.



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MARKETING

VISA VOLLEYS FOR MARKET SHARE

It has to play catch-up on tie-ins with major brands to score big

Pity poor Visa. On Sept. 10, American Express Co. ran a vitriolic two-page advertisement in *The New York Times* accusing its rival, a sponsor of the U. S. Open tennis tournament, of persuading merchants at the Open to drop the American Express card in exchange for Visa ads. The spat came less than two weeks after the head of Visa International's U. S. unit resigned amid rumors that he had differed with Visa's directors. The credit-card giant suddenly found itself swamped by a flood of unflattering publicity.

Meanwhile, as Visa and AmEx duke it out, MasterCard International Inc. has been gaining market share for the past 18 months. While AmEx' charge volume grew just 10% in the first six months of 1993, compared with 16% for Visa, MasterCard's volume was up 23%, to $62 billion (chart).

MasterCard's challenge is particularly worrisome for Visa, still the preeminent credit card, with $101 billion in charge volume in the first half of the year and 45% of the market. Visa must put itself "more in touch with consumers," says Robert McKinley, president of market researcher RAM Research Corp. Indeed, outsiders contend that Visa needs to modify further its marketing approach. The card has long been positioned as an alternative to upscale American Express rather than a substitute for the more downscale MasterCard. Visa ads barely mentioned MasterCard, focusing instead on vacation spots and restaurants that "don't take American Express."

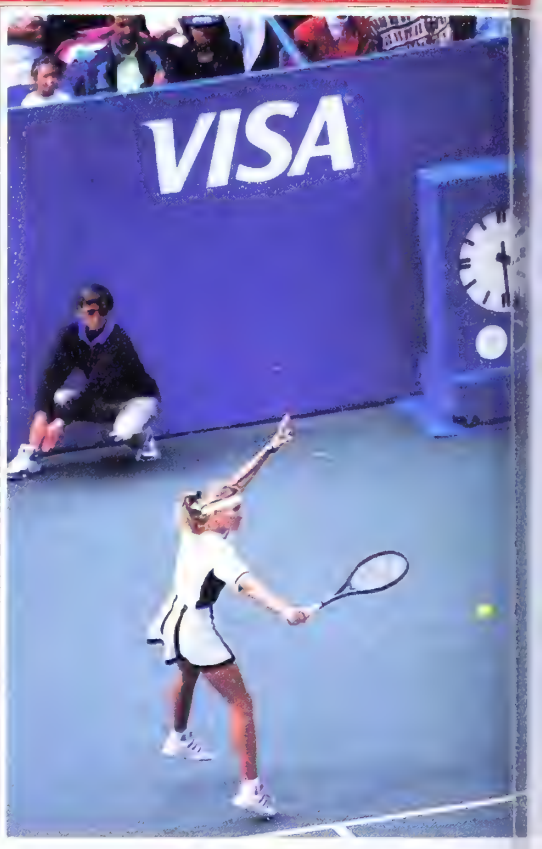
The campaign worked famously, and Visa saw its market share increase almost every year in the 1980s. Now MasterCard, which languished in the 1980s, is taking a different tack. It is grabbing market share by emphasizing value and squarely targeting the middle class.

REBATE-HUNGRY. More important, MasterCard is the leading co-brander—the card banks issue most often in tandem with huge nonfinancial companies such as General Motors Corp. Thanks to co-branding, MasterCard is outpacing Visa in charge-volume growth for the first time since 1987, as bargain-hungry consumers sign up for cards that earn them rebates on such merchandise as new GM cars. Stephen Bartell, MasterCard's vice-president for co-branded and affinity marketing, predicts that growth in bank cards will come entirely from deals offering consumers rebates, frequent-flier miles, or other features.

If he's right, Visa will have to play catch-up. Visa says it has delayed a big push into co-branding while it studies the market. But outsiders say Visa's directors were the obstacle. They "didn't like the idea of letting these great unwashed corporate entities" into the credit-card market, says John Stewart, editor of *Credit Card Management*, a trade magazine.

Whatever the reason, Visa's coolness to co-branding has hurt. Last year, MasterCard increased its U. S. cards outstanding by 9.5%, to 99.5 million—much faster than Visa's 5.8% hike to 149.5 million cards. Co-branded cards are the key to MasterCard's edge: There now are nearly 7 million GM cards outstanding, for instance. American Telephone & Telegraph Co., another co-brander, only issues Visa cards if consumers ask for them, so about 70% of its 17 million cards are MasterCards.

Visa is now actively pursuing co-branding: Banks are issuing Visa cards in conjunction with Ford Motor Co., Nordstrom Inc., and others. "We've created a SWAT team to pick up on this," with four full-time employees and specialists on call, says Executive Vice-President Bradford W. Morgan. Visa has also modifi its advertising: In place of a French c tle as an example of a place that does accept American Express, they featu more down-to-earth venues, such as children's bookstore and a dude ranc

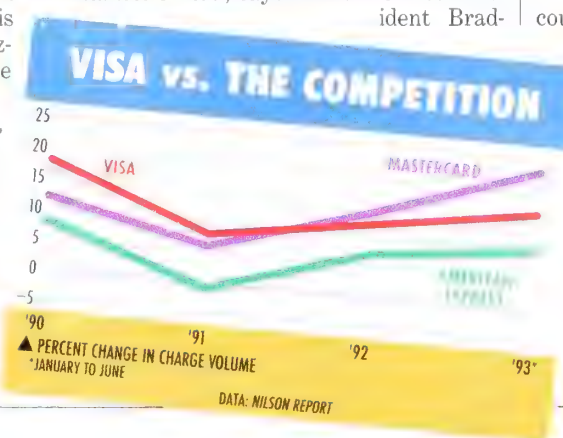


GRAND-SLAM TACTICS: DID VISA PRESS U.S. OPEN MERCHANTS TO DROP AMEX? AMEX SAYS YES

HIGH MARKS. The new Chief Executi Officer of Visa's U. S. division, Carl P carella, may help get things moving. turned Visa's Far East operation i the market leader in five years and described by one industry source as t kind of sharp marketer Visa needs "more of a press-the-flesh kind of gu than his predecessor, economist H. R ert Heller. Visa has other strengths, t It scores high on customer-satisfacti surveys. And if debit cards—which dra directly on consumers' checking a counts—take off, Visa has a big adva tage: About 70% of the natio bank deposits are poised to linked to Visa cards.

But Visa has a lot more cat ing up to do. MasterCard alrea has more than 25 million co-bran ed cards in consumers' hands. Ma be Visa needs to take a page fro the reigning champs at the U. Open. Top-seeded players the know they just have to volley th much harder when an up-and-com starts to mount a challenge.

By Kelley Holland in New Yo



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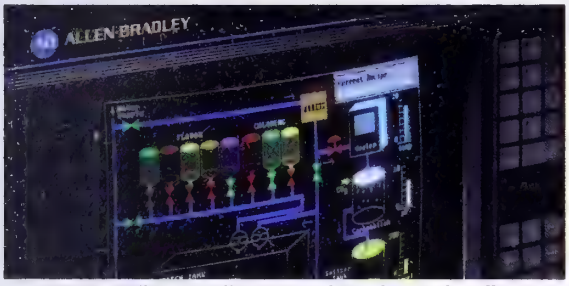

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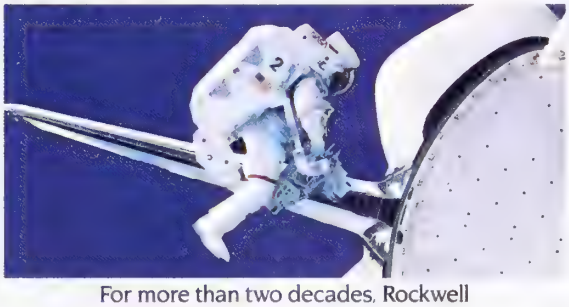

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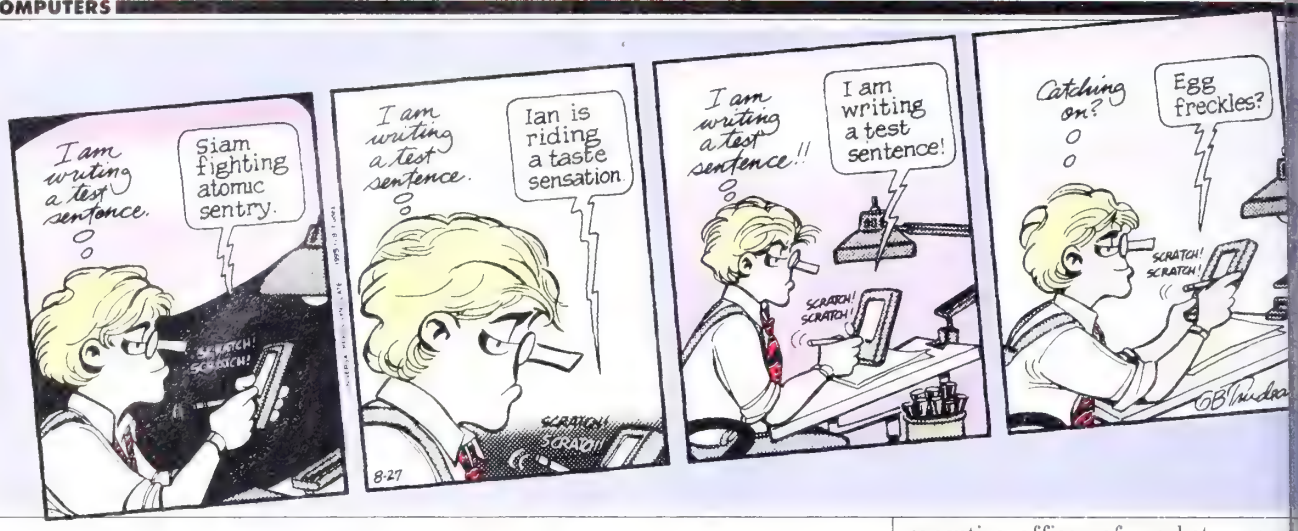

'MY NORSE 15 CRITICS'

Sales are strong, but the reading skills of Apple's Newton are shaky

There is a certain ambivalence that goes with being the first computer ever mocked in *Doonesbury*. On the one hand, a nationally syndicated cartoon strip implies mass-market appeal. On the other, well, a nationally syndicated pan is still a pan.

But there it was, in newspapers everywhere: A full week of protagonist Mike Doonesbury wrestling with the vagaries of handwriting recognition, the celebrated feature of Apple Computer Inc.'s Newton MessagePad.

UNIMPRESSED. It has come to this: that the most trumpeted technological achievement of the year is reduced to nonsensical one-liners. Newton, the first handheld personal digital assistant (PDA)—incorporating electronic telephone book, calendar, notepad, and portable faxer—was unveiled on Aug. 2. Computer types praise its handwriting recognition as the best to date. But plenty of regular people are unimpressed. One newspaper critic concluded PDA should be renamed "productivity draining apparatus." Another mused that Newton will wind up dropping on Apple's head.

Apple says: Mellow out. Some of the Newton criticism, company executives argue, is knee-jerky and unjustified. They say it takes time, perhaps up to two weeks, for people to "train" their Newtons to recognize individual handwriting. "It's like any first new product," said Apple Chairman John Sculley, defending Newton at a conference in Boston on Sept. 14. "There are bound to be things we'd like to see it do better."

Besides, says Gaston Bastiaens, head of the Apple division overseeing Newton, "the proof in the pudding is how many we've sold." In fact, Apple says it has sold more than 10,000 Newtons so far, at prices ranging from $695 to $950. Retailers support that claim. New England-based Computer Town says its five stores sold 2,000 MessagePads in one month. "We've never had any product sell like this," says President Thomas E. Jacobs. Tandy Corp.'s Computer City SuperCenters sold out their supply within days and have more on order. Says Computer City President Alan Bush: "The whole PDA category is going to be a grand-slam home run."

Maybe yes, maybe no. The computer industry is littered with examples of pioneering products that sold like hotcakes for a few months, then fell flat. Take Apple's original 1984 Macintosh computer. Apple boasted of shipping 70,000 units in the machine's first 100 days. Then sales fizzled. Apple posted a loss—and layoffs—before an improved Mac in 1986 pumped up sales.

Some fret Newton could turn into a Mac replay. Says Aaron Goldberg, chief executive officer of market researc InfoCorp: "*Doonesbury* crystallized current state of PDAs for the entire r ing world. They are selling very v yet their utility is something you m call into doubt."

Others don't doubt it at all. Ma researcher Dataquest Inc. estima 70,000 PDAs will be snapped up this y mushrooming to 350,000 in 1994 850,000 in 1995. That's why other c puter makers, from AST Research In Compaq Computer Corp., are set to into the PDA fray.

DYSLEXIC? True, PDA makers worry Newton-bashing will sour some poter customers. But many computer ex tives believe the real problem is Newton's handwriting recognition. that reason, Newton's woes may act ly spur sales of rival machines that emphasize handwriting recognition in vor of simpler pen-based technolog Says Howard Elias, vice-president worldwide marketing for AST, which ship a PDA in November: "Handwrit is just not ready for prime time."

Lori Johnson couldn't agree m Testing a Newton on display in a Sa Clara (Calif.) store, she writes: " name is Lori." Newton's interpretat "My mom is Low." "I'm telling you, definitely not paying $695," she says

But husband Curtis Johnson mig He is impressed with the technology thinks Newton would be great for or nizing all the notes he takes as a s ware engineer for Sybase Inc. He ta a turn at Newton, writing: "My nam Curtis." He remains enthusiastic, desp the response: "My norse 15 Critics."

Therein, perhaps, lies a message ab the fate of Newton and other PDAs. it's too early to tell for certain. And definitely too garbled.

By Kathy Rebello in San Francisco, w Stephanie Anderson Forest and Pe Burrows in Dallas

> Newton's public-relations woes could spur the sales of rival machines that don't try to read human scrawl

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In Business This Week

EDITED BY THANE PETERSON

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Companies spend millions developing logos, but are they really effective? Here's how 150 consumers judged a company's image when looking at its name alone, and with its logo. A positive score indicates that the logo adds a sense of quality and trustworthiness. A negative rating means that the logo detracts from the image:

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MERCURY	23%
CADILLAC	17%

Continental Insurance

BOTTOM FIVE	
CONTINENTAL INSURANCE	-27%
OLDSMOBILE	-21%
BRITISH AIRWAYS	-20%
MINOLTA	-18%
INFINITI	-16%

DATA THE SCHECHTER GROUP

AN EX-HUMANA EXEC IS GUILTY OF FRAUD

▸ George Atkins, once Humana's public-affairs chief, is pleading guilty to one count of mail fraud. Atkins' indictment alleged that he bought a Kentucky state legislator's favorable vote on a 1990 bill aimed at cutting hospital regulation. Atkins is also cooperating with authorities, who are continuing their probe.

Others have already been tainted in the matter: On Aug. 30, another Kentucky legislator resigned after admitting that he accepted $3,000 from a different Humana lobbyist not long after the bill passed. A third legislator has also admitted receiving cash from the lobbyist. Only Atkins, however, has been indicted.

Humana fired Atkins last September for "conduct that was in violation of company policy" and said it "regrets" what occurred. Humana is cooperating with investigators but won't comment further.

SMOKE SIGNALS THAT SPELL LAYOFFS

▸ Now that the cigarette price war has evolved into a melee of everyday low prices, tobacco companies are scrambling to cut costs. Expecting this year's operating profits to plummet by $900 million, No. 2 player R. J. Reynolds Tobacco plans to slash up to 1,000 jobs by mid-1994, limit promotional spending, and cut corporate fat.

Analysts also expect layoffs at industry leader Philip Morris, which just wrapped up an early-retirement offering to employees in August.

MORE CUTS AT AMERICAN AND UNITED

▸ U. S. airlines continue to clip their own wings, adding to pressure on unions to make wage and other concessions. On Sept. 14, American Airlines said it it would cut 5,000 jobs, or about 5% of its work force, by the end of next year and accelerate its retirement of aircraft. The moves, when combined with previous cuts, will reduce American's capacity by 4.5% next year.

CAL-I-FORN-IA, WE WON'T LEAVE—WHOOPS

Business-bashing in California is suddenly very passé. Long known for its regulatory zeal, the state recently streamlined its process for issuing environmental permits. It also adopted changes that will cut business taxes by about $500 million a year—including a 6% tax credit for new investments and elimination of the 5% sales tax for startups. The state has also revamped its workers' compensation laws.

But will all this improve the once-golden state's luster? investment-tax-credit changes alone could boost spending about $8.8 billion over 10 years—enough to offset the estimated 500,000 jobs the state has lost in recent years. And Governor Pete Wilson recently basked in testimonials from s Hughes Aircraft execs, who said they've decided not to l thanks to the new attitude. Great news! Except that Hug has already moved much of its manufacturing to Tucson.

United Airlines, meanwhile, announced on Sept. 13 the sale of its 15 flight kitchens, which would allow the company to shed 5,200 union workers and save $320 million in catering costs over a seven-year contract. The $119 million sale may be annulled if United's unions adopt a cost-savings accord by Nov. 13.

A NUCOR KNOCKOFF GETS READY TO ROLL

▸ Ready for Son of Nucor? A breakaway group from Nucor is planning to build an ultra-competitive steel minimill. Called Steel Dynamics, the company will be headed Keith Busse, who ran Nuc successful high-tech mini in Crawfordsville, Ind. startup hopes to best the pressive productivity of Crawfordsville plant, wh makes a ton of flat-ro steel in only 36 worker m utes—vs. an industry aver of four hours. Busse has cured $35 million in equity nancing and hopes to s building by late 1994. Ci across the Midwest are of ing enticements in hopes nabbing the project.

SEARS TRIES FOR SOME SEX APPEA

▸ Frederick's of Hollywoo ain't, but stodgy old Se Roebuck is certainly cha ing. On Sept. 14, merchand group Chief Executive Art Martinez unveiled an e catching new $40 mill print- and TV-ad campaign entice women into check out the Big Store's new, m fashionable dresses, blou and other women's appa One print ad features a gerie-clad woman cooing t she bought her two-year-o pair of pajamas at Sears help the child go to slee and a revealing gown keep my 40-year-old awak


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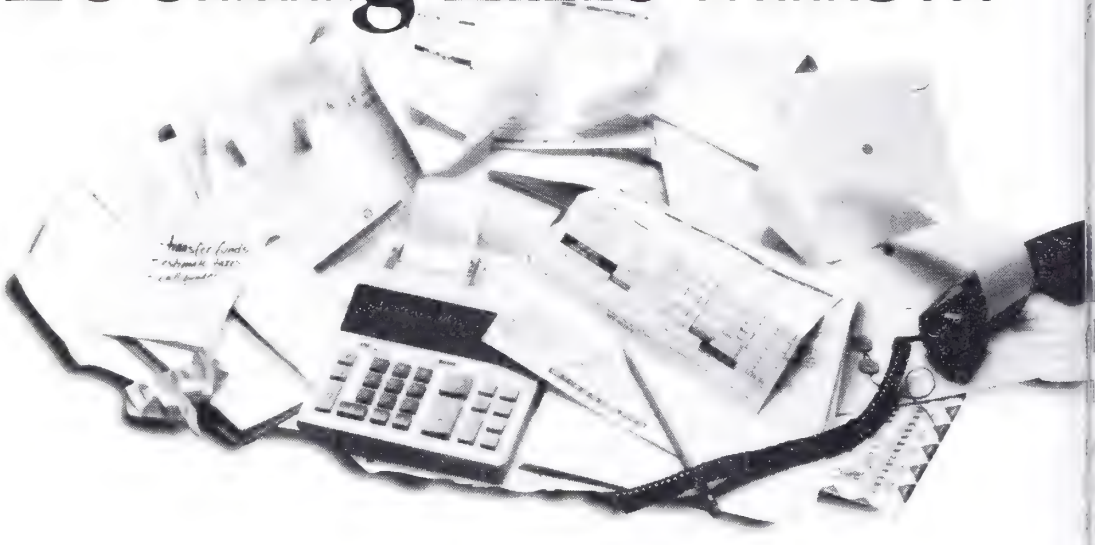
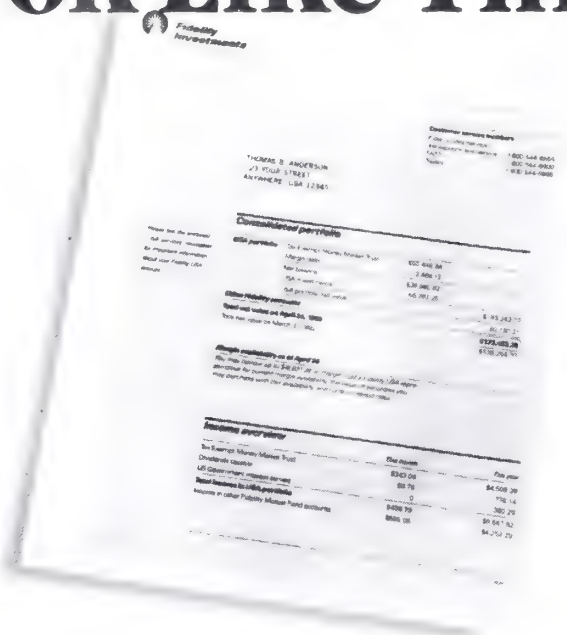
If Your Financial Life Is Looking Like This...



When It Should Look Like This...



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Smith Barney FMA	$100	Yes	Yes	No[3]	No	Yes	No	$10,000
Prudential Command Account	$75	Yes	Yes	Yes[2]	No	Yes	No	$10,000
Dean Witter AAA	$80	Yes	Yes	No	No	Yes	No	$10,000

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NEC

EDITED BY STEPHEN H. WILDSTROM

ITTING THE BRAKES N THE DATA HIGHWAY

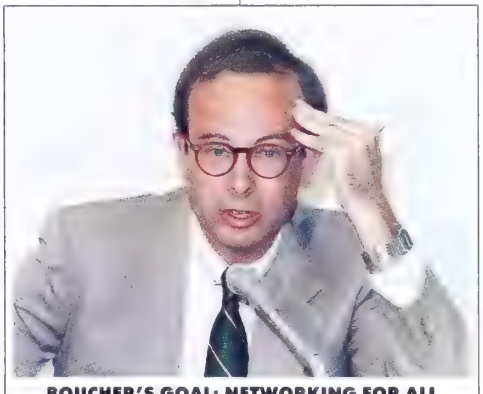
n the campaign trail, Bill Clinton and Al Gore had a glowing vision of the electronic future. The high-tech pols saw a "data superhighway" that would be every- for everyone. Business could send data zipping among ered offices, schoolkids could tap into the Library of ress, researchers could exchange high-resolution images, ouch potatoes could order entertainment on demand. w reality has set in. The Administration sees that vast owerful networks have already been built by universities, rations, and federal agencies—and that attached to this lex system is a web of entrenched ests. Says Michael M. Roberts, resident for networking at Edu- an alliance of universities: "Clinton ore now realize that their expecta- were totally out of control."

on Sept. 15, the White House took gical step. In unveiling an agenda uilding a "national information in- ucture," it set up a task force to the thorny issues. The panel's e includes figuring out who can what down the "highway," how it d be paid for, and how security rivacy can be assured.

PREAD. In the meantime, the Ad- tration is supporting pilot projects, such as those funded gislation sponsored by Representative Rick Boucher (D- The Boucher bill, which likely will be enacted this year, l demonstrate use of advanced data networks in fields health care to education.

rting out the conflicting interests of business, academe, ouseholds—and of local phone companies, long-distance ders, and cable operators—will be a major challenge for ask force. In recent years, while politicians weren't ning, information networks have spread like wild vines. rnment got the process rolling in the 1970s, when the gon and National Science Foundation sponsored modest data nets for academics and contractors. These have grown into the Internet, an international network used by more than a million researchers—and thousands of companies. "It's a perfect example of where government did it right," says network pioneer David Farber of the University of Pennsylvania.

But corporations' growing interest in the Internet—the kernel around which the network of the future will be formed—is causing jitters among both academics and the phone companies who now provide business communications services. The Baby Bells fear competition from partly subsidized networks, which often allow users to bypass local phone companies for service such as e-mail. Researchers fret that commercial pressure will drive up the cost of what has been a very inexpensive method of communication. And the prospect that households will be able to get entertainment on demand worries cable companies, which see competition for their expensive systems. Adds former Representative Thomas J. Tauke (R-Iowa), now a vice-president of Nynex Corp.: "The technology is moving so rapidly and federal policy is so far behind the curve that we haven't begun to tackle the bigger issues."



BOUCHER'S GOAL: NETWORKING FOR ALL

Boucher, who says his goal is "to extend networking to the general populace," has tried to balance these interests. His bill provides funds for such advanced uses as sending X-ray images to distant doctors or beaming classes to far-flung students. He has eased the fears of both phone companies and research by barring the government from competition with commercial services.

But Boucher's legislation isn't designed to handle the toughest policy questions. The Administration's decision to hand the larger issues to a task force looks like a punt, but it may be the best way to avoid a costly mistake.

By John Carey

TAL WRAPUP

FELLOWS

rmer Drexel Burnham Lambert unk-bond king Michael Milken and Congressional Black Caucus seem an odd combination. But Milken is advising the Congressional Black cus Foundation on strategies for munity development. Among the s Milken planned to discuss at a t. 17 panel in Washington: invest- it of pension funds in inner cities use of community development ks. Milken, convicted of securities d, has been living in Los Angeles e his release from prison and has n doing community service in an drug program as a condition of parole. Milken's panel was followed by the director of the film *Menace II Society*.

THE CENSUS

Arguments over undercounts in the U. S. census would be a thing of the past if a National Research Council panel has its way. The experts have endorsed a Census Bureau scheme that would account for people who fail to mail back forms or are otherwise missed in the design of the population count. Rather than adjusting for the undercount of minorities and homeless people after the fact, the so-called one-number census would use statistical techniques to make sure that the count accurately reflects the population.

CIVIL RIGHTS

The White House is finally ready to fill some key civil rights posts. John Payton, counsel for the District of Columbia government, is likely to head the Justice Dept.'s Civil Rights division, a job that was to have gone to Lani Guinier. New York labor lawyer Ida Castro has emerged as a top contender for chair of the Equal Employment Opportunity Commission (EEOC), while Washington attorney Joseph Sellers will likely be the EEOC's general counsel. And longtime Commissioner Mary Frances Berry will probably be named chair of the U. S. Commission on Civil Rights.

JAPAN

A TSUNAMI OF GIZMOS

Japan's new gadgets have a new twist: Plenty of U.S. technology

It's closing time at Bic Camera, one of Tokyo's discount-electronics stores, and shoppers are still prowling the aisles. They mean business. Despite Japan's severe economic slump, these enthusiasts are snapping up Sharp camcorders and Sony digital recorders. "We're selling these products as fast as we can stack them," says Assistant Manager Yu Horikoshi.

This buying frenzy may seem out of place. The past year, after all, has produced the worst slump ever for Japan's electronics makers. With sales off at home and the high yen hurting exports, companies have cut workers and forced out executives. But through the turmoil, the Japanese have kept their eye on the long term. Since the late 1980s, Sony Corp., Matsushita Electrical Industrial Co., and others have invested $500 billion in research and development, leading to a quantum leap in miniaturization and liquid-crystal-display technologies. And in a major reversal, the Japanese have relied on the brain trusts of such American companies as Texas Instruments Inc., American Telephone & Telegraph Co., and startups to provide chips and software essential to the products.

The result is a ripple of excitement among Japanese consumers who years ago stuffed their homes with VCRs and Nintendo machines. The biggest hit has been Sharp Corp.'s LCD ViewCam. Instead of the usual tiny viewfinder, the ViewCam uses a 4-inch liquid-crystal display that lets you watch the movie in color on an ample-size screen as it's being shot. "The breakthrough came in a flash when we understood that we could replace the viewfinder with an LCD," says Yoshio Okano, the Sharp manager who headed ViewCam development.

Despite the high prices, ranging upwards of $1,300, Sharp has sold 200,000 units since last October and commands 20% of the domestic market. That makes ViewCam "a decisive hit," says Shigetoshi Kono, vice-secretary general of Nippon Electric Big-Stores Assn., a retailers' group in Tokyo. Sharp has more than tripled production. Exports could be nearly half a million units this year as the ViewCam hits U. S. stores.

There's more than videomania going on here. Sharp managers insist that the ability to build these LCD screens is the key to successful product innovation in the 1990s. That's one reason Toshiba, Hitachi, and others are investing billions of dollars to catch Sharp in LCDs. Predicts David Benda, senior analyst with Barclays de Zoete Wedd Tokyo: "Others are certain to emulate what Sharp has done." Sure enough, on Aug. 31, Sony Corp. unveiled a ViewCam look-alike called Handycam Sc The price: $1,200, just below Sharp ViewCam.

NIFTY NOTEBOOK. LCD technology is also paying off elsewhere. After seeing its share of the laptop computer market decline for years in the U. S., NEC Corp. made a comeback in April with featherweight notebook computers, leveraging its strength in color LCDs. The UltraLite Versa notebook, which costs about $4,800, has a "modular" design that lets users change the screen, disk drive, and memory by snapping them in and off the main body. In the notebook market, LCD capability is a knack for making things smaller that helped Toshiba, Epson, and Matsushita gain share in the U. S. In the first quarter of 1993, Japanese companies shipped about $1 billion worth of notebooks and related peripherals to the U.

Matsushita's new flat-display process could be another triumph of miniaturization. In October, after 20 years of R&D, Matsushita takes the wraps off its 14-inch Flatvision TV, which has a screen less than 4 inches thick. The image is brighter than an LCD and can be viewed from any angle.

REAL 3 DO Interactive Multiplayer

DESIGNED BY A U.S. COMPANY, IT DELIVERS ARCADE-QUALITY IMAGES AND RESPONSE TIME BY COMBINING 32-BIT PROCESSING AND FAST-SPINNING COMPACT DISKS

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sushita says it can eventually be
e in sizes as large as 20 inches.
ne company hopes to make another
sh next month. Its $699 REAL video-
e player uses fast-spinning compact
s and special graphics chips to pro-
games with images far superior to
e offered by Nintendo Co. and Sega
erprises Inc. A San Mateo (Calif.)
pany, 3 DO Co., designed the player,
Matsushita is building it. William
Trip) Hawkins III, president and
of 3 DO, figures the Japanese giant
committed up to $100 million for
launch. If Matsushita avoids a head-
attle with Nintendo and Sega, it
ds a good chance of succeeding, says
ronics analyst Jeff Camp at Jardine
ning Securities Ltd. in Tokyo.
ivalries are also heating up in digital

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lio products. Sony's MiniDisc systems
d 74 minutes of sound on a disk
aller than a music CD, and unlike
se CD players, MD systems can
ord. Matsushita and Philips Elec-
nics are countering with the Digital
mpact Cassette system, which can
old, analog cassettes as well as su-
ior-sounding newer, digital ones. But
lysts like Sony, since MD's laser-based
hnology lets the listener skip quickly
the desired cut on the disk. "Sales are
wing at twice the rate of CD sales
ring its introduction period," says
ay President Norio Ohga.
In the heat of these battles, the
panese are not only showing the
ength of their own technology. They

Sharp ViewCam

**E OF ITS FEATURES REPLACES THE OLD
WFINDER WITH A COMPLETELY
NGINEERED LIQUID-CRYSTAL DISPLAY
TACHED TO THE CAMERA'S BODY**

Sanyo Cordless Answering Phone

THIS APPLIANCE USES AN AT&T CHIP THAT LETS THE RECEIVER DOUBLE AS A SPEAKER-PHONE WHILE STILL DELIVERING HIGH-QUALITY SOUND

are also learning how partnerships with American companies give them a strategic advantage. The Matsushita-3 DO linkup is just one example. Last year, Sanyo Electric Co. tapped AT&T Microelectronics to design a processor that lets the handset of its cordless answering telephone double as a speakerphone. The $660 product is one of the best-selling units in Japan, helping make Sanyo the cordless answering-telephone leader. Sony, meanwhile, has been placing Texas Instruments' chips into everything from video cameras to its latest MiniDisc products. "There's no other company that can offer the same range of semiconductor products," says Sony Deputy President Nobuo Kanoi.

GRAY AREA. For many new multimedia products, it's hard to pinpoint where U. S. input ends and where Japanese expertise takes over. Take Nintendo's new partnership with computer-graphics leader Silicon Graphics Inc. (SGI), which provides the gamemaker with chip- and system-design knowhow. When it comes time to purchase the chips, Nintendo will likely turn to SGI's Japanese partners—either NEC or Toshiba—which today develop and build some of SGI's most advanced microprocessor designs under license.

Some of America's largest electronics companies are also learning how to pair up for product launches. Take Sharp's involvement with Apple Computer Inc.'s Newton "personal communicators." Sharp hatched its game plan 18 months ago when it signed with Apple to co-develop and manufacture these powerful electronic notepads. Sharp makes all the Newton products for Apple and gets to sell its own version, the Expert Pad, with identical functions. Neither Apple nor Sharp will release U. S. sales figures. But demand is so high that Sharp says it can't keep pace. "We've sold out every bit of inventory we've brought in," says Gil DeLiso, a marketing director for Sharp. Both companies plan launches in Japan next year.

Will these offerings be enough to pull Japan's electronics companies out of the doldrums? Probably not—or at least not right away. But they show how Japan's innovation engine is still humming and how the Japanese are effectively tapping outsiders for help in launching products quickly. Eventually, that might reignite consumers' interest—and, the Japanese hope, restore lost strength to a crucial industry.

By Neil Gross in Tokyo, with Kathy Rebello in San Francisco

MEXICO

MEXICAN INDUSTRIAL WAGES ARE ABOUT ONE-SIXTH OF THOSE IN THE U.S.

CONGRATULATIONS, MEXICO, YOU'RE DUE FOR A RAISE

Salinas' pay-for-productivity plan may placate the anti-NAFTA fringe

Negotiators from Mexico, the U. S., and Canada huddled in Washington in August, haggling over the final details on labor and environmental standards for the North American Free Trade Agreement. As anti-NAFTA noises grew louder, the Clinton Administration needed to show that the pact wouldn't just send U. S. companies streaming across the border in search of cheap labor. So Mexican President Carlos Salinas de Gortari phoned Bill Clinton. His pledge: He would move to raise Mexico's tightly controlled wages. "We are committed to expanding job opportunities and raising our people's earnings," Salinas said.

Nice promise, but can Salinas deliver? Some experts question just how committed he is to boosting wages when low labor costs are Mexico's main competitive advantage. But the beginnings of the Salinas plan are emerging. The biggest change would link Mexican industrial wages, averaging $1.99 an hour, to productivity gains. Salinas will soon convene panels of government, labor, and management experts to examine how to modify labor contracts without derailing the economy. Giant Teléfonos de México (Telmex) is the first to implement a plan to award bonuses based on productivity.

Higher pay, of course, could mean more inflation, which Salinas has tirelessly attacked. But in theory, boosting productivity keeps manufacturers' costs down, counteracting any inflationary forces unleashed by increased wages.

But the pressures to deviate from this plan will be immense. Mexican manufacturers are suffering through hard times and are in no mood to pay workers more. And if productivity doesn't increase, Salinas will still be tempted to boost wages before presidential elections next year. Allowing wages to rise too quickly could fuel inflation, which would pressure the peso and maybe scare away new foreign investors.

Workers already have plenty to worry about. Even though the economy has grown an average of 3% a year over the past five years, the average worker's salary has only 65% of the buying power it had before the 1982 crash, according to the powerful Mexican Workers Confederation (CTM). Of course, more prosperous workers mean a better market for U. S. exports, a centerpiece of the NAFTA argument. So Salinas has told National Commission on Minimum S ries to come up with a formula to r the minimum wage, on which 18% workers subsist.

For the 8 million Mexicans who w at large companies under union tracts, the government plans to estab company-level productivity goals. government wants to reward gains productivity with bonuses rather t raise overall wages. Telmex is set the pace. It has already created a $ million incentive pool and started aw ing productivity bonuses to worker August, becoming one of the first m companies to do so.

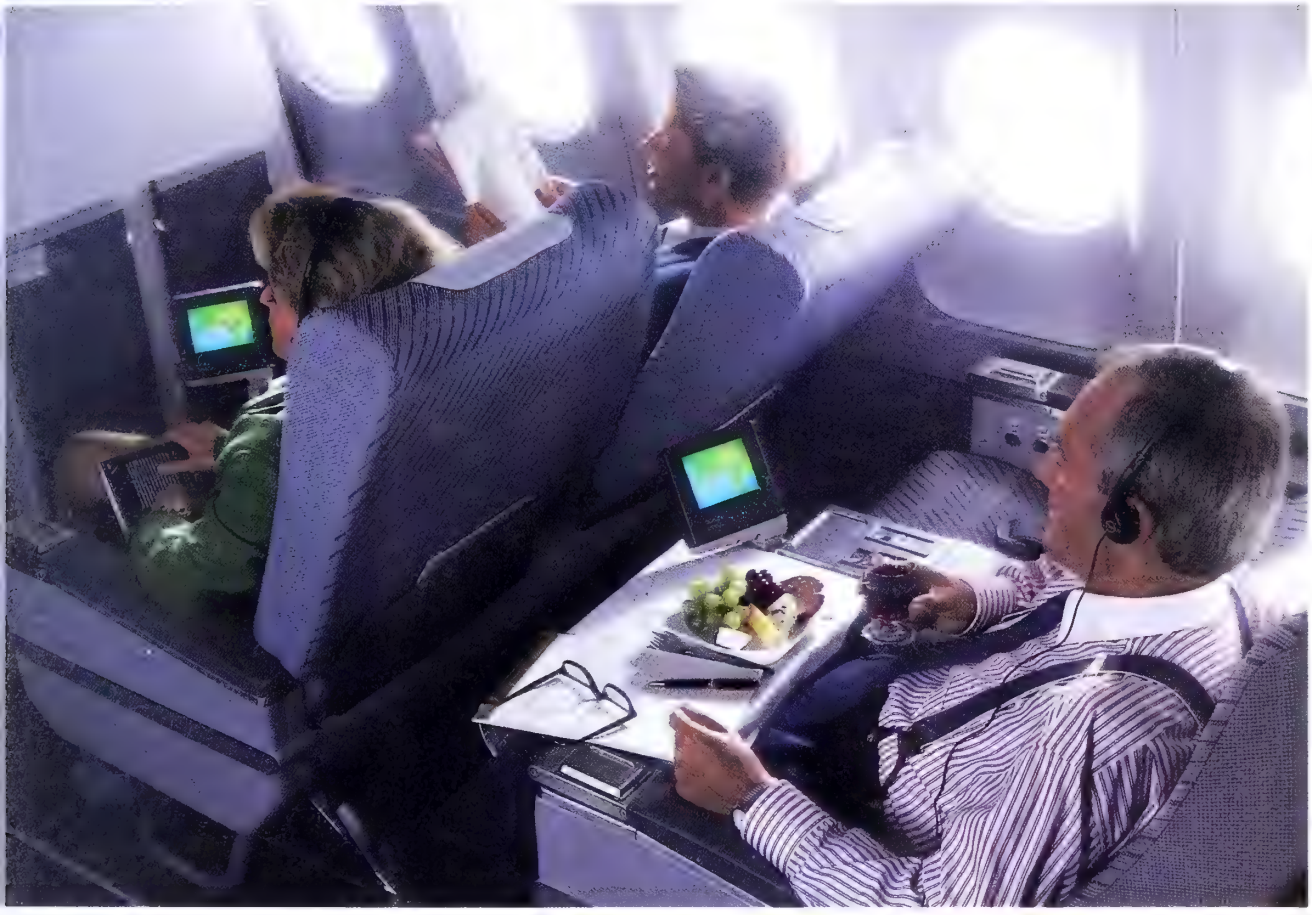
It's a big change for Mexico's backward telephone monopoly. It to be that repairmen would comp only half of their rounds during reg working hours, and save the rest t on costly overtime. Then, complainin low salaries, they would demand a ti customers to do the job right. But that started changing when Telmex privatized in December of 1990. U the new plan, if workers meet mon goals, they can earn bonuses equal t much as 30% of their salaries.

50-YEAR WAIT? In any event, no one pects Mexican wages to reach U. S. els anytime soon. "I figure it will tak least 50 years to reduce the gap 40%—seriously," says Congressm Juan S. Millán Lizárraga, also a CTM cial. Although Mexican productivity been rising about 6% a year—twice U. S. rate—industrial wages in Me remain about one-sixth the U. S. lev

The challenge ahead may seem m boggling. But Mex workers, employers, government offic have proven over past seven years they are capable of ting down at the ne ating table and ham ing out effective nati accords for a variet purposes—such as bi ing down inflation or moting industrywide training programs helps, of course, Mexico's execu branch can dictate it wants. But pleasi U. S. president, placa Mexican workers, wooing industrialists at the same time c prove to be Salinas' est challenge yet.

By Geri Smith in M City

Workers' Compensation.



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Commentary/by Bruce Nussbaum

IS THAT OLD-TIME RELIGION THE NEW WORLD ORDER?

The simple handshake between Yassir Arafat and Yitzhak Rabin, astonishing as it was, is but the latest tectonic shift stemming from the end of the cold war. Peace in the Middle East, nuclear disarmament, Bosnia's destruction, warlordism in Somalia—all reflect the amazing changes since the demise of the Soviet bloc.

With the international system torn from its mooring of nearly half a century, the U. S. is struggling to define and defend its interests. If communism is dead, what foreign policy framework should the U. S. use to structure its approach to the new world order? And what is that order, anyway?

A fierce debate in Washington centers on that question. Just as George Kennan's 1947 *X* article in *Foreign Affairs* defined the U. S. policy of containing communism, so are others forming new paradigms. First out was Francis Fukuyama, a State Dept. analyst who declared the end of the cold war meant "the end of history." Liberal democracy had won, he wrote, leaving statesmen only "technical" problems to solve.

DARK OUTLOOK. Yet the crises of the 1990s have proved anything but "technical," and Fukuyama's theory has faded from the scene. Instead, policymakers are debating a powerful new world view articulated in *The Clash of Civilizations?*, a recent *Foreign Affairs* piece. Espoused by eminent Harvard political scientist Samuel P. Huntington, this thesis—should Washington adopt it—has forbidding implications for foreign policy. Huntington's argument: that after the cold war, "the great divisions among humankind and the dominating source of conflict will be cultural," not ideological or economic. "The clash of civilizations will be the battle lines of the future," he writes.

Huntington lists eight civilizations: Western, Confucian, Japanese, Islamic, Hindu, Slavic-Orthodox, Latin American, and African. Replacing the Soviet/U. S. blocs are cleavages between the West and the rest—particularly the West and Islam as well as an Islamic-Confucian alliance. The substance of conflict is not markets or resources but values, most embedded in religion.

To Huntington, cultural values and religion are recovering their strength, because economic modernization and social change are "separating people from their local identities." The nation-state is weakening, people are adrift and turning to older beliefs. The world is desecularizing, as fundamentalism sweeps through India and the Mideast and cultural nationalism grows in China, Japan, and Russia. In short, a massive de-Westernization is under way.

BOSNIAN PRISONERS: DOES THEIR WAR-TORN LAND STRADDLE A CULTURAL FAULT LINE BETWEEN CHRISTIANITY AND ISLAM?

Huntington's tract is seductive because it seems to explain so much. Take the tragedy in Bosnia. According to Huntington, this wretched land is probably the site of the first modern clash between civilizations, with Islam facing off against the Christian West. In this determinist scheme, Yugoslavia's unraveling should surprise no one: Bosnia straddles a dangerous cultural fault line that has separated Christianity and Islam since 1500.

Yet this argument comes up short on many points. It wasn't the fundamentalist wing of Islamic civilization that invaded the feudal kingdom of Kuwait, but a very secular Iraqi government. Can one talk of conflict between the West and Islam when the kingdom of Saudi Arabia and the secular one-party state of Egypt sided with the U. S. a Europe in the gulf war? How abo the new peace between "European" raelis and Islamic Palestinians? As f Bosnia, why are Christian Serbs al attacking, then teaming up with, Chr tian Croats? The Bosnian situati seems more a horrible case of Serbi land grabs than a clash of civilizatio

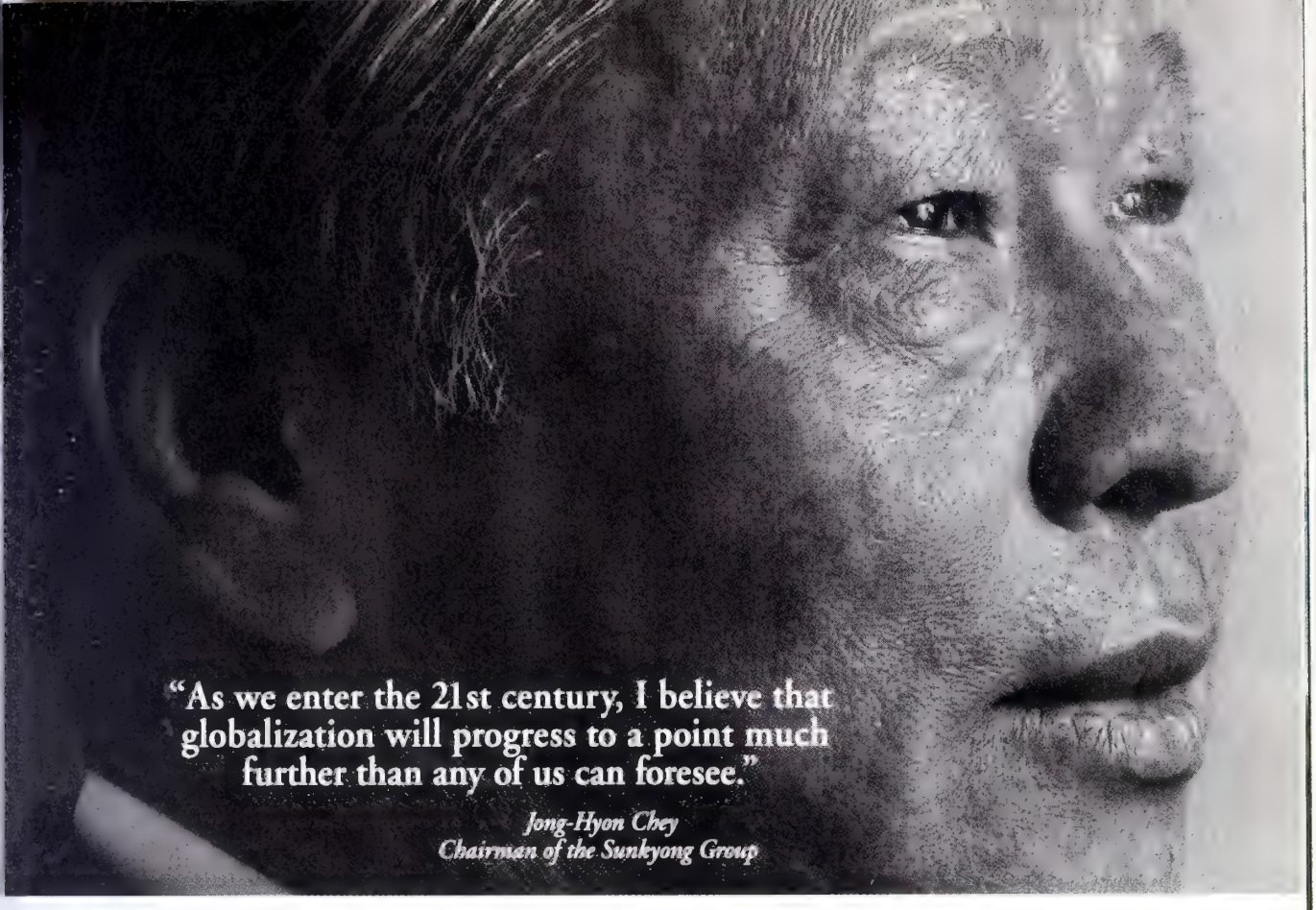
Not only is Huntington's framewo wobbly, but he misunderstands t most potent force sweeping the glo today: the market economy. Look some of today's rising powers. Chin new might isn't because of its retu of Confucianism but its embrace of Weste style markets support by American and Jap nese investment.

Granted, Chinese ca talism won't mirror U. capitalism—or Japane or European capitalis Latin America's emer ing market economy wi be different, too, as wi Malaysia's and Indon sia's. But enough simil ities will exist to allo thousands of new bu ness deals uniting c zens around the glol And new technologi from satellite dishes to fax machines the Internet data-base exchange, a uniting an emerging global mid class.

In the end, Huntington doesn't of much guidance on foreign policy. H clash-of-civilizations thesis basica calls for a state of armed vigilance- sort of post-cold war cold war. Th pleases defense hawks. But the U. needs a better guidebook. Policym ers would do better to look to the gl al economy, where free flows of ca tal, goods, people, and data may defu the tribal forces by creating and c tributing wealth. And when offici scan for new fault lines to mend, th should look for the ones separati those inside the global economy fr those outside of it.

Yes, culture matters—sometim tragically. But focusing exclusively o old values means ignoring the n forces rapidly remaking the world.

Nussbaum edits BW's Editorial pag



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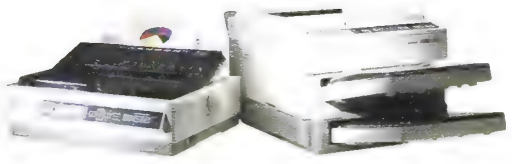

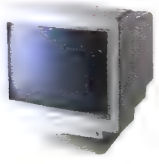

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McCORMACK AT THE U.S. OPEN

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TENNIS Jim Courier is among the stars of stars that IMG represents

MUSIC Dame Kiri Te Kanawa is a client

Small thing, maybe. Yet it points up the fact that IMG is feeling more heat than it ever has in its 33 years. Sure, IMG remains a towering presence. Says Barrie [illegible], chairman of CSS International Holdings PLC, a British sponsorship consultant: "It would take a lot of Davids to knock that particular Goliath over." But everywhere McCormack looks, there's a big with a slingshot.

That wasn't the case in the sizzling '80s, when IMG revenues grew more than sixfold, to some $700 million (McCormack is majority owner and declines to divulge precise numbers.) And while that pace hasn't continued in the torpid '90s, IMG has still managed to close to the $1 billion mark. "I'd like to tell you we were brilliant and we knew how to deal with the recession," says McCormack, "... but we were also very lucky to be in the right place" as advertisers plowed more into sponsoring sports and special events as an alter-

These days, buying a new phone system is like leaping into murky waters. You never know what's lurking below until you take the plunge. Will you be swamped with calls? Or will things dry up over time? And what about evolving technology? Will you need features like private networks, automated call distribution or voice messaging? We suggest you take a deep breath and relax.

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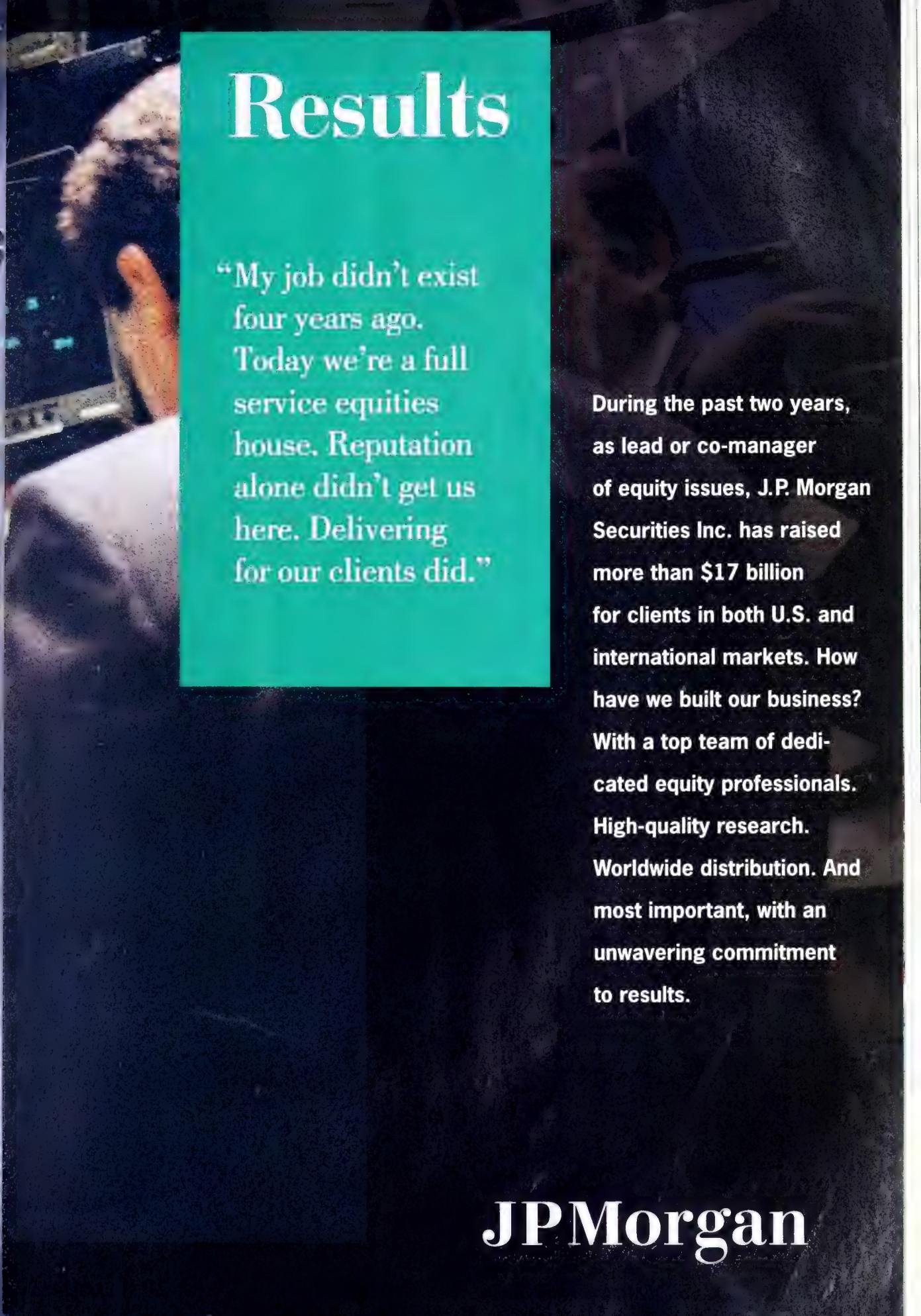

Results

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tive to the glut of traditional messages.

That trend is likely to continue, at least for now. But the very growth that turned IMG into a powerhouse has created a string of new challenges for McCormack.

Nike Inc. is beginning to represent athletes and is hooking up with Hollywood czar Michael Ovitz of Creative Artists Agency to try to stage major sports events—two businesses that are pillars of IMG. Networks are throwing money at late-night talk-show hosts now—not sports. Organizations that once paid IMG to peddle the TV rights to their sporting events have cut out the middleman. Sponsors are demanding concrete results. A field of smaller rivals has mushroomed. And IMG, which creates sporting events while representing athletes that play in them, continues to be dogged by conflict-of-interest charges.

Perhaps the scariest blip on IMG's radar screen is Nike CEO Knight, who has talked with McCormack about buying IMG. Nike, concerned about maintaining closer control over the image of top endorsers such as Michael Jordan, is venturing into athletic representation. So far, it's only fully managing four athletes—Jordan is not one of them—and won't say much about its ambitions.

TOP GUNS. While the threat from Nike, especially its venture with Ovitz and CAA, is more psychological than real at the moment, it underlines the fact that sports and special events have become so lucrative that more and more players want in on the action. International Events Group in Chicago estimates that sponsors worldwide paid organizers of events $8.5 billion in 1992.

With its array of top talent, from Nick Faldo to Wayne Gretzky, and control of events, from the tennis championships of the ATP Tour in Frankfurt to the World Triathalon in Nice, IMG has a far juicier slice of that pie than anyone else. McCormack sees "pretty decent" growth this year and "exceptional" growth in 1994. Some of the reasons: IMG will start promoting and running the world figure-skating championships. Its TV unit, Trans World International (TWI), recently helped negotiate the sale of U. S. TV rights to the 1996 Atlanta Olympics. As the new marketing agent for the U. S. Volleyball Assn., IMG has guaranteed the organization at least $30 million and will help stage 35 or 40 events a year. (Look for a new pro volleyball league after the next Olympics.) Next year, TWI, producer of the Skins Game and more sports programming than anyone except the networks, aims to help get a cable-TV golf channel off the ground (page 73).

Besides all that, IMG is talking for the first time about joint ventures with deep-pocketed partners. One possibility: starting a new U. S.-style pro football league in Europe that could be affiliated with the National Football League.

Clearly, Cleveland-based IMG is looking to be a lot more than a go-between these days. McCormack long ago recognized the importance of running events, not just representing athletes who compete in them: "Wimbledon doesn't break a leg, sprain an ankle, fail a drug test, or lose six-love, six-love," he says.

For 15 years, IMG arranged the NFL's broadcasts overseas. Last year, the NFL took the job in-house. "If you own an event or create it, that isn't going to happen," says McCormack.

So IMG is buying events, such as the Detroit Grand Prix and some Virginia Slims tennis tournaments. It has entered into a partnership with the European PGA Tour to produce events and distribute TV worldwide. And IMG has guaranteed the ATP Tour $100 million over three years for its TV and marketing rights. McCormack's tennis game doesn't stop there. IMG owns the Nick Bollettieri Tennis Academy and handles merchandising and sales of foreign TV rights for Wimbledon.

That perva-

sive presence and IMG's cocky attitu have long drawn criticism. But they a help explain why McCormack can pear so unconcerned about Nike a CAA. "These guys are capable a they're rich," says McCormack, "but is a big world and a big market. We certainly not worried about meeting payroll."

"TOTALLY DOMINATING." McCorma boasts that no one competes globa with IMG. "Our size in our business is tally dominating," he says. With 62 of es in 21 countries and 60% of its re nues from overseas, IMG has a glo reach unmatched by either ProServ or Advantage International, the com nies most often considered its riva Hundreds of boutique consultants t have sprung up are pecking at IM business, however, and many mark ers now have their own special-ev departments.

At the same time, companies "pickier and more c scious of results," s IMG Senior Vice-Pr dent Robert Kain. also has to be more a marketer these da using promotions help companies more bang out their sponsorship

Some critics sn that IMG is m concerned with s ing its own vast ventory of athle and events th in promoting interests of corporate ents. "Their idea of a strategy is, buy what I'm selling,'" says one riv But for years, IMG has created ma new events, using its athletes and connections. And that aspect of the b ness is a bigger part its growth to When United Distillers PLC wante a golf event to promote Johnnie Wal scotch, IMG put together a match in maica featuring top-rated golfers t was televised in 80 countries.

The multiple roles IMG plays in s attractions often spawn charges that company can't represent so many int ests without conflict. IMG is embroile a nasty lawsuit with skater Dorothy mill. The suit charges, among ot things, that "... IMG's self-dealing conflicts of interest resulted in less vorable terms and monies than Do thy otherwise would have received.

IMG denies these allegations. McC mack also points out that by invent alternatives to Ice Capades and Dis on Ice, IMG has created more oppo nities for skating stars. "Without t

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Lloyd Wilson Helps Navigate 1,483 Planes A Day.

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There aren't any signs or landmarks in the sky to help pilots navigate from city to city. Instead, they depend on Lloyd Wilson to help guide the way.

Lloyd's with the Federal Aviation Administration (FAA), and his job is to maintain VHF Omni-directional Range (VOR) transmitters, a crucial piece of navigational hardware that keeps pilots on course. And sometimes the job's a tough one. Many VORs are found in remote locations, so Lloyd often packs his camping gear and takes a few days just to reach them.

To make this process more efficient, the FAA is now installing automated monitoring equipment on VORs and other FAA field instruments. Through a central facility Lloyd will be able to monitor and manage more equipment with greater speed and reliability.

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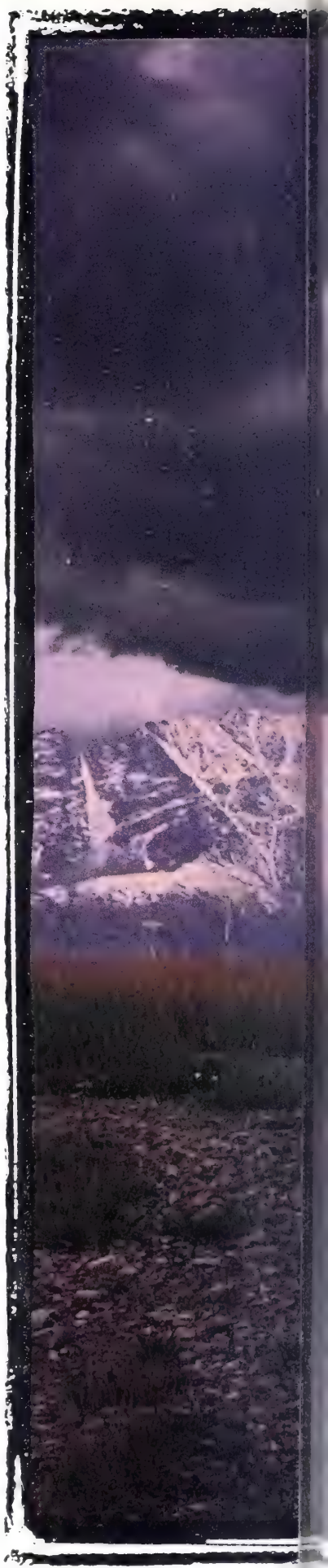
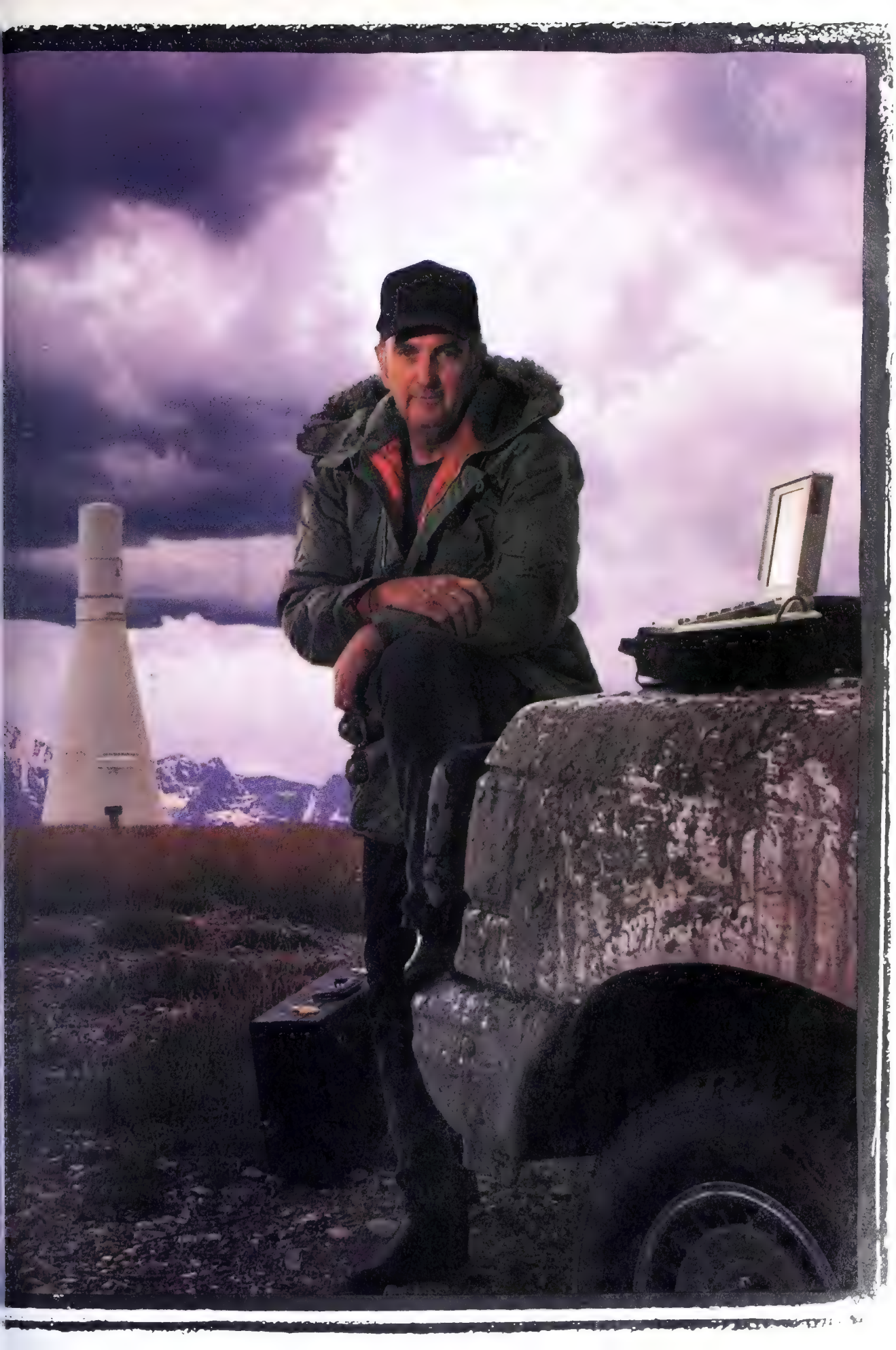


MARTIN MARIETTA
6801 ROCKLEDGE DRIVE, BETHESDA, MARYLAND 20817

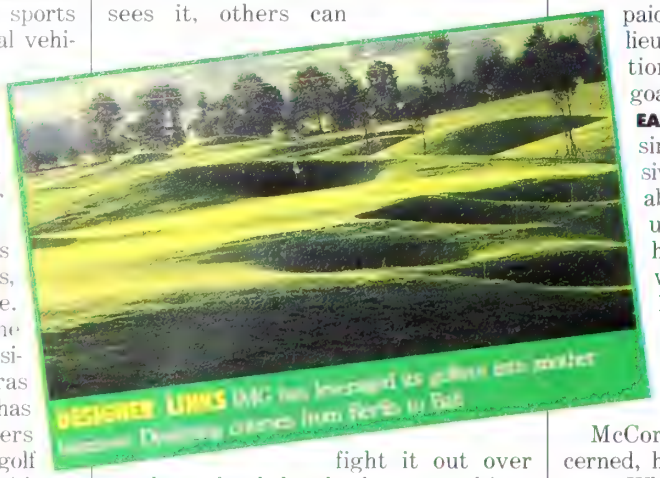


they have no place to go, except to become a Smurf or a Dwarf," he says.

Wags call it International Money Grubbers and huff about how McCormack defines his role: to make sports "more popular, better commercial vehicles for companies to use to sell their products." But McCormack makes no bones about his mission: "We're always looking for emerging sports, like P&G is looking for emerging potato chips or liquid soap."

IMG continues to beef up its presence in newer nonsports areas, such as music and real estate. McCormack says IMG has become the second-largest agency for classical music, counting 52 orchestras among its clients. Meanwhile, it has leveraged its brand-name golfers into another business: designing golf courses from Berlin to Bali. And it's looking to grow more in team sports, which has not been its strong suit in the past.

FOCUS ON EUROPE. IMG's biggest growth, though, may come from TV, particularly in Europe. As commercial broadcasting continues to blossom there, the market for sports programming should grow. And both in Europe and the U.S., though growth is sluggish now, IMG sees a big opportunity to supply more and more niche channels. As McCormack sees it, others can fight it out over such newfangled technology as multimedia; he'll be around to provide programming. "I don't know anything about technology," says McCormack, admitting that, if instead of a computer there were "an accountant with a green visor somewhere writing things down, I'd feel better about it."



In many other ways, IMG remains something of an old-fashioned operati... It just hired its first human resour... chief, though it employs 1,600 peop...

The long-serving top cadre is w... paid, but hardly any McCorma... lieutenants have a piece of the ... tion; and IMG has no financ... goals.

EARLY RISER. That's especially ... since McCormack is so comp... sive in his personal life. Rising ... about 4:30 a.m., he keeps me... ulous track of his time, includ... how many days each year he ... with his wife, tennis pro a... 1993 over-35 Wimbledon d... bles champ Betsy Nagels... how much he has slept; a... how much time he has sp... doing sit-ups.

McCormack seems much less c... cerned, however, about the bigger ... ture. While lots of other CEOs McC... mack's age are starting to think ab... retiring, IMG's chief is clearly not rea... to step aside. Why should I, asks McC... mack. "Everybody retires to do wha... do every day."

By Zachary Schiller in Cleveland, ... Julia Flynn in London, Jonathan B. ... vine in Paris, and bureau reports

WOULD YOU BELIEVE...THE GOLF CHANNEL?

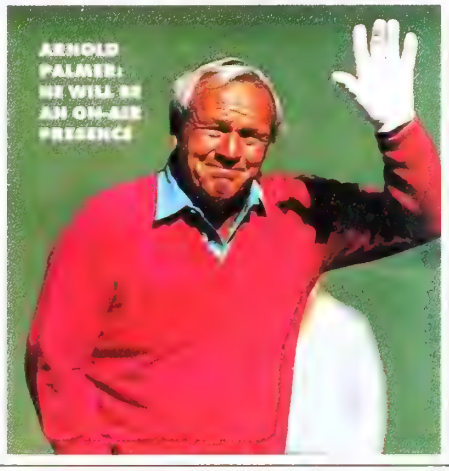
If you've always wanted to play Pebble Beach, you may soon get to take a close look around—on TV. And if you like what you see, you can sign up for a tour package. And before you go, you'll want to order the video to bone up on how to play each hole.

Sports TV gone mad? Maybe. Depends on how many duffers tune in when The Golf Channel hits the tube next spring. Yes, The Golf Channel—24 hours a day of instruction, news, interviews, and tournaments.

MAJOR PLAYERS. This is no pipe dream in the pro shop. Dillon, Read & Co. is trying to raise $100 million to fund the ramp-up of the project, and the principals include Arnold Palmer, International Management Group's Mark H. McCormack, and founder Joseph E. Gibbs, a cable operator in several southern states. IMG, though only a modest investor, helped develop the business plan and is playing the crucial role of programmer.

With the world getting ready for 500-channel TV, The Golf Channel is but one of dozens of proposed new contenders. Still, it has a good shot: There are an estimated 11.5 million golfers over age 18 in the U. S., the sport tends to inspire fanaticism, and many golfers are affluent. That could boost home shopping.

At about $5 a month, the channel needs some 2 million customers to break even. The main hitch, besides raising the money, is getting cable operators to carry it. "I haven't heard of anyone doing cartwheels over this," says Richard Aurelio, president of Time Warner Cable's New York Group. He says the channel will be "ideal" once capacity increases but adds that "in the present environment, it's bucking up against a scarcity problem."



Not to worry, say Gibbs and IMG executives. Because of new cable requirements, operators will have to add products that viewers pay extra for, such as The Golf Channel, to increase revenues. Moreover, Gibbs adds, "We don't in our business plan expect to be in every cable system in America by June, 1994." Indeed, the plan calls for the channel to be available in 10% of U. S. homes that get cable by the end of next year and 30% by the end of 1995. It doesn't look to break even for up to 2½ years.

One question, though: Will all the voices on The Golf Channel speak in whispers?

By Zachary Schiller in Cleveland

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TRAINING

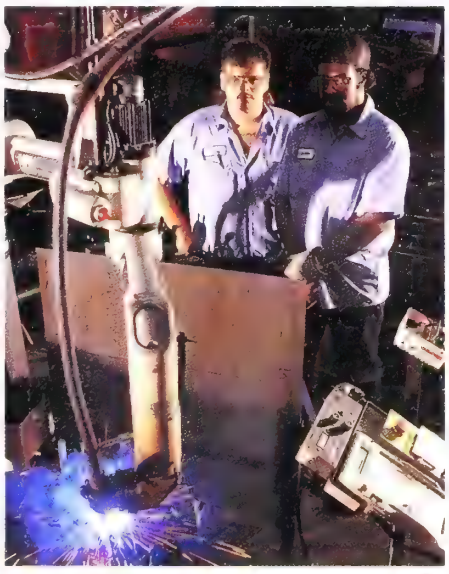
RETOOLING AMERICAN WORKERS

Community colleges are now a key to corporate retraining efforts

Not all students at Rock Valley Community College in Rockford, Ill., will be studying Poli-Sci and Biology 101 this fall. Roughly 13% of the student body will be boning up on such topics as "Teaming for Success" and "Reliability Engineering" at the behest of their employers. In recent years, some 100 local companies from giants Sundstrand and Ingersoll Milling to tiny Production Line have sent their workers back to school.

Put aside stereotypes of two-year community colleges as dumping grounds for underachievers. The schools aren't abandoning their mission of helping kids get into four-year schools and offering vocational training. But more and more, they're seeking to fill a critical void: upgrading workers' skills so U. S. companies can stay globally competitive. "There's no higher priority for New Jersey's community colleges than economic development," says Lawrence Nespoli, executive director of the state's Council of County Colleges. "Yes, it's important for people to study Aristotle and Shakespeare. But it's also important for them to be gainfully employed."

That's a tall order. A new study of literacy in the U. S. released on Sept. 8 concluded that more than 20%—some 42 million adults—have skills so limited that they're ill-equipped for job advancement or managing their personal affairs. About 40 million to 44 million people couldn't even consistently read a map or fill out a simple form. "Inadequate skills are a severe limit on the potential of the work force," says Gregory Anrig, president of the Educational Testing Service in Princeton, N. J., which conducted the study. "It could suggest that we're in danger of losing jobs because literacy levels in the U. S. are below those of other countries."



ROCKFORD PROCESS SENT ITS WORKERS TO LEARN AT ROCK VALLEY—AND LANDED HONDA

Community colleges alone, of course, can't begin to redress such problems. But they're increasingly stepping into the breach. In fact, the nation's 1,158 community colleges have emerged as the largest provider of work-force retraining, aside from employers themselves. A 1992 poll of 608 community colleges by the D. C.-based Southport Institute for Policy Analysis found that 69% of those surveyed offer workplace retraining. More than half the schools started programs in the five years from 1987 to 1991.

CROWDED FIELD. Until recently, such efforts have been largely ad hoc. But that's changing as the colleges pick up momentum and corporate backing. In June, the newly formed "Consortium for Supplier Training," which includes Motorola, Xerox, Kodak, and Digital Equipment, began turning over its in-house courses on benchmarking and other proven quality methods to select community colleges nationwide. The schools will teach the courses to the suppliers of consortium members—and anyone else who wants to take them. A handful of schools participate now, but "our vision is to have hundreds around the country involved," says James R. Parker, manager of supplier quality at Xerox Corp.

For some companies, the training is paying off. Rockford Process Control Inc., a custom metal-assemblies maker started sending its 60 employees to Rock Valley in the late 1980s. They studied just-in-time production, problem-solving, and other techniques that helped Rockford cut defects, speed production—and land Honda as a major client, says founder Paul Colloton. By yearend, Rockford's revenues will have doubled since 1990, to $12.5 million. The work force has surged to 125.

Many schools, facing shrinking state funds for higher education, see corporate-sponsored training programs generating much-needed cash. They have plenty of competition: The field is bursting with professional trainers, trade associations, labor unions, and others, all clamoring for scarce training dollars. But companies often find that community colleges are the best value for the money. "This is college-level quality," says Teresa A. Dial, executive vice president for business banking at Wells Fargo Bank, which is using the colleges for training. "It's also cost-effective." Dial says community colleges are 10%

HEADING OFF TO (COMMUNITY) COLLEGE

HEWLETT-PACKARD The College of San Mateo is sending professors to a Boise (Idaho) plant to teach production workers about basic electronics

F. SCHUMACHER Community colleges are training managers of the New York-based fabric supplier in problem-solving and conflict resolution

MOTOROLA As part of a consortium of seven companies and Sematech, the technology giant is turning to a network of select community colleges to train suppliers

JOHNSON & JOHNSON Grayson Community College in Sherman, Tex., is teaching leadership skills to first-line supervisors at a local J&J gauze plant

DATA: BUSINESS WEEK

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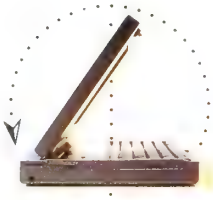

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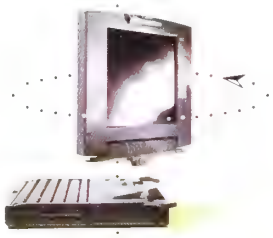
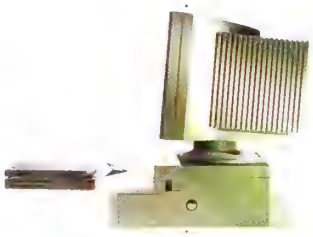


Or flips around in just seconds



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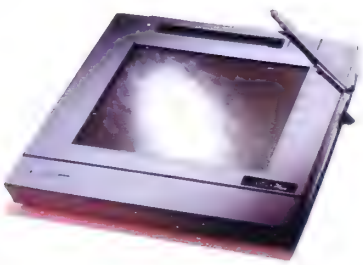

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intel inside

NEC

cheaper than professional trainers. ıe schools are marketing themselves ıiloring their programs to the needs cal employers (table, page 76). The ge of San Mateo in California and lett-Packard Co. recently developed ıuter-based, interactive training in ronics for Hewlett-Packard techni- and production workers. In addi- to class instruction, the school has p 24-hour-a-day computer centers at ral HP plants to accommodate the s' three shifts.

EY DRAG. Some colleges are even ranteeing" graduates of their techni- ırograms to address growing con- s among employers and others over ack of accountability in higher edu- ın. Under such a guarantee, if a ıany is unhappy with a graduate's s, the employee can take refresher ses gratis until the employer is sat- d. So far, all Illinois colleges, plus schools in New Jersey and Texas, the guarantees.

yeing employers with multiple offic- New Jersey and others are forming nunity college networks, with a co- ıator to link programs. Wells Fargo is using such a system in Califor- o teach in-depth financial analysis and accounting to some 300 banking officers at about a dozen campuses. "The great thing is you have access to 100 potential locations, but you don't have to deal with them individually," says Dial.

Business isn't always satisfied with the colleges. A big worry is consistency. "We've seen an unevenness in terms of quality" at Illinois schools, says Mark S. Killion, a consultant to the Illinois Manufacturers Assn., which is pairing schools with interested companies.

> To address employer concerns, some colleges even "guarantee" graduates of their technical programs

Colleges, on the other hand, claim that businesses can make unreasonable demands. Xerox and Eastman Kodak Co., for example, wanted full-time faculty, rather than adjunct professors, to teach their supplier courses at Monroe Community College in Rochester, N.Y. President Peter A. Spina agreed, but he hesitated at first: Twelve years earlier, the school, at Kodak's request, hired two tenured professors to teach Kodak employees about a new processing method. The process has long since become obsolete and the classes ended, but both professors are still on Monroe's faculty.

As more companies and schools collaborate, such problems will eventually work themselves out. A far bigger obstacle is money. Employer spending on training is stuck at about $30 billion a year, or about 1% of payroll, estimates Anthony Carnevale, chief economist for the American Society for Training & Development. That's less than half the per capita spending in Germany.

While President Bill Clinton supports increased training funds, the U. S. isn't likely to ante up much financial help soon. But states are stepping in. California and Illinois have set up matching grants to retrain workers, while New Jersey and Texas are dipping into overfunded unemployment insurance funds to shell out about $50 million annually for training. If more states follow—and if the colleges live up to their aims of making workers more competitive—their role will continue to expand.

By Lois Therrien in Chicago

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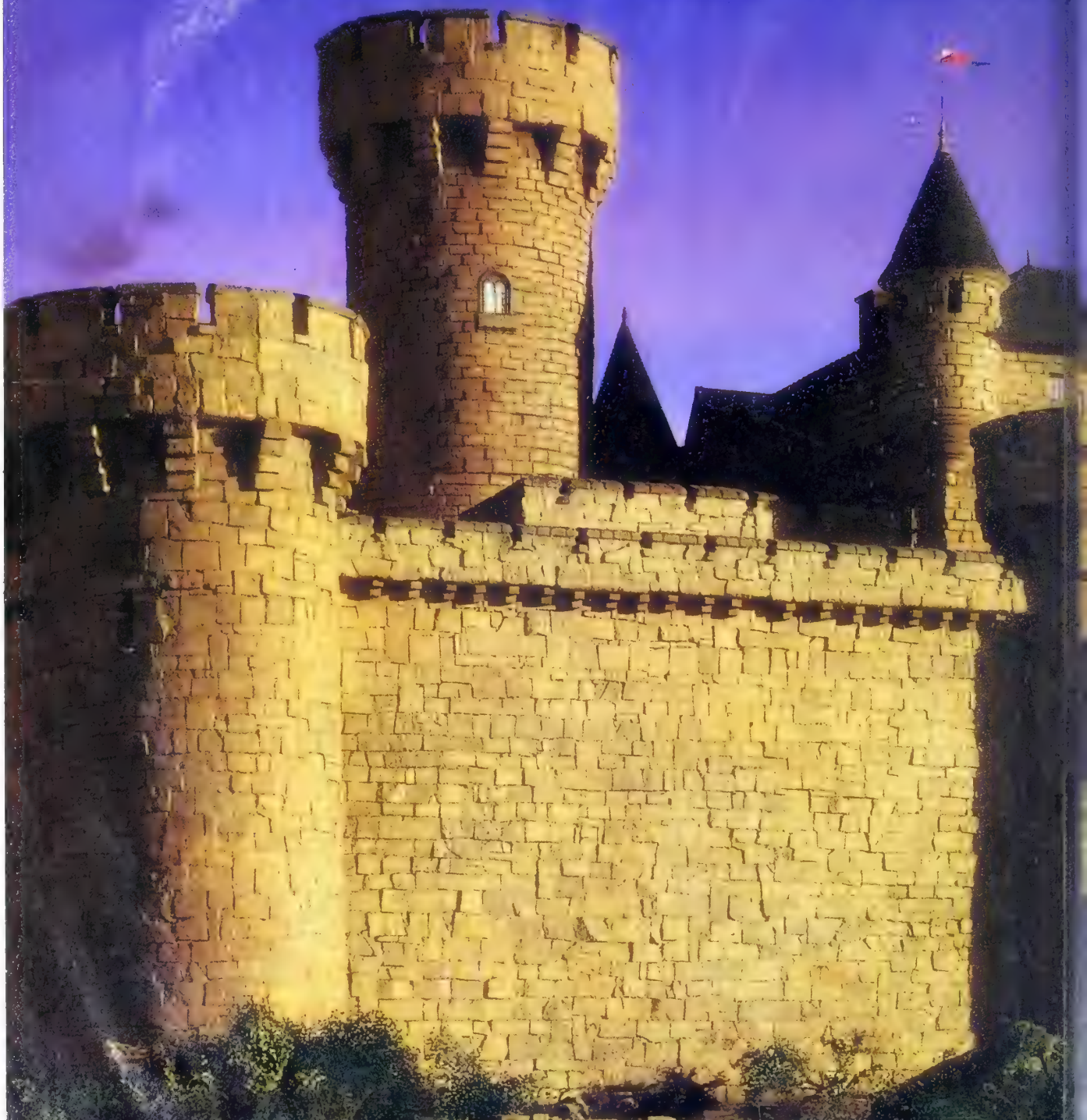

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TRADE

THE TRADE TRIO TALKING TOUGH WITH TOKYO

Can Clinton's nuts-and-bolts experts help crack Japan's markets?

Question: How many trade mechanics does it take to squeeze concessions out of Japan? The answer: It better not be more than three.

That's how many nuts-and-bolts negotiators from the U. S. Trade Representative's office will be in the trenches for Washington when the U. S. and Japan square off in Hawaii on Sept. 19 for a new round of market-opening talks. Arrayed against them will be an army of experts on America from Japan's fabled Ministry of International Trade & Industry—hundreds of trade wonks who pore over piles of documents in search of some minute advantage.

The lonely trio of Japan specialists from the USTR—Charlene Barshevsky, Ira Wolf, and Charles Lake—will be working hand in hand with allies and experts from many federal agencies, all of whom have a daunting assignment. Under the banner of "results-oriented trade," the Clinton Administration has staked much on the outcome of the Hawaii talks. The sessions are aimed at hammering out a framework that can gain measurable market access for the U. S. in 12 specific sectors of Japan's shuttered economy.

But whatever the Americans might lack in numerical strength, they make up for in fortitude and firepower. Is Barshevsky worried by the odds? "Not at all," insists the 43-year-old Deputy U. S. Trade Representative. "The Japanese are capable, smart, and tough. We are too."

That bravado will soon be put to the test. Up till now, most jousting in the trade wars has been between political leaders. Now the work of translating the pols' promises into concrete agreements is falling to the bureaucrats. Although Japanologists from the Commerce, State, and Treasury Depts. will also be on hand, the job of monitoring the outcome of the talks to make sure it conforms to U. S. law will be handled by the USTR. And viewed as a group, the USTR's Tokyo Trio isn't exactly chopped *fugu*. Together, these experts claim some 23 years of living in Japan and intimate knowledge of its customs and mores.

■ THE HAMMER. Every Administration, it seems, needs a tough-talking negotiator who can bedevil the opposition with legal jujitsu. Former U. S. Trade Representative Carla Hills played that role for President Bush. In the Japan talks, the job goes to the brassy Barshevsky. With nearly two decades of experience as a Washington international-trade lawyer with Steptoe & Johnson, she has watched many a trade concession from Tokyo get stymied by opposition from MITI. Barshevsky is determined to put more heat on MITI to avoid seeing the same fate befall Clinton's trade initiative.

In July, she angered the Japanese—and earned the moniker "Stonewall"—when she demanded that MITI stop its foot-dragging on the "framework" talks agreed to by Tokyo's Foreign Ministry. "Charlene is one smart, tough lady," says Alan Holmer, former USTR deputy in the Reagan Administration.

Under the framework agreement, Barshevsky has been given the authority to negotiate deals in a key area: expanding Japanese government procurement of U. S. high-technology products and communications gear.

The Administration has told the government of Prime Minister Morihiro Hosokawa that it expects quantifiable progress in the sectoral talks by January. "The Japanese understand our expectations here, and the timetable we are following," says Barshevsky with typical bluntness. "And yes, we will respond in kind if our expectations are not met."

Tough talk. But there are problems. The framework hammered out between President Clinton and lame-duck Japanese Prime Minister Kiichi Miyazawa at the Tokyo economic summit is maddeningly vague. For example, it calls for a "highly significant" decrease in Japan's current-account surplus, now running at 4% of gross domestic product, without defining what "significant" means. What's more, while the new Hosokawa government has pledged more cooperation in

CHARLES LAKE

Grew up in Japan, son of a Tokyo-based American businessman and a Japanese mother. Worked for two years as a legislative assistant in the Japanese Diet. Trained as a lawyer. Bilingual.

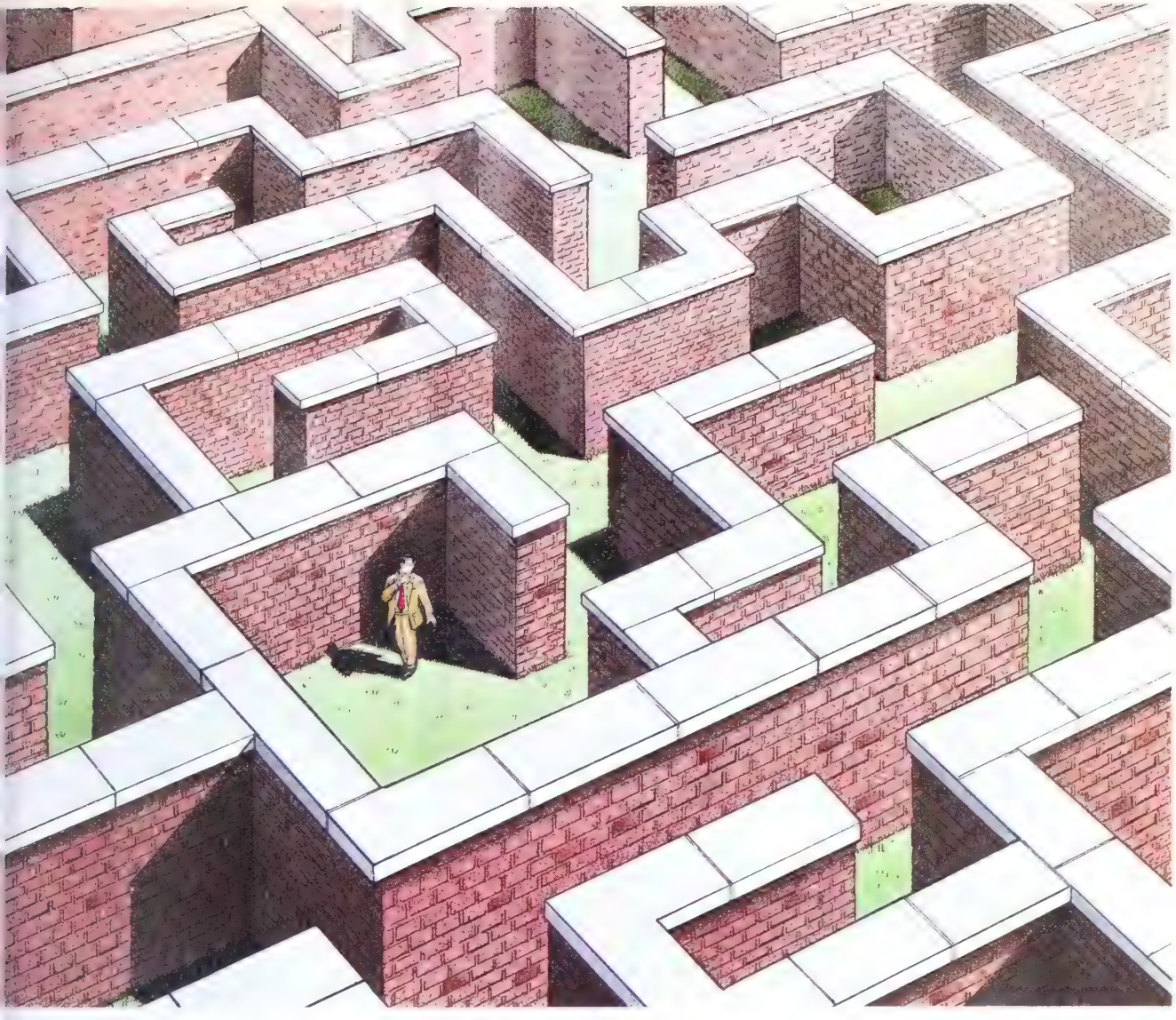
CHARLENE BARSHEVSKY

Spearheaded Steptoe & Johnson's international trade-law practice for 18 years. Earned the moniker "Stonewall" in negotiations that resulted in a framework for opening Japan's markets.

IRA WOLF

Lived in Japan for six years—as a student, U.S Embassy trade specialist, and representative of Motorola. Also worked c the State Dept. as chief c the textile-import program.

BRYON TITTEL/HALES



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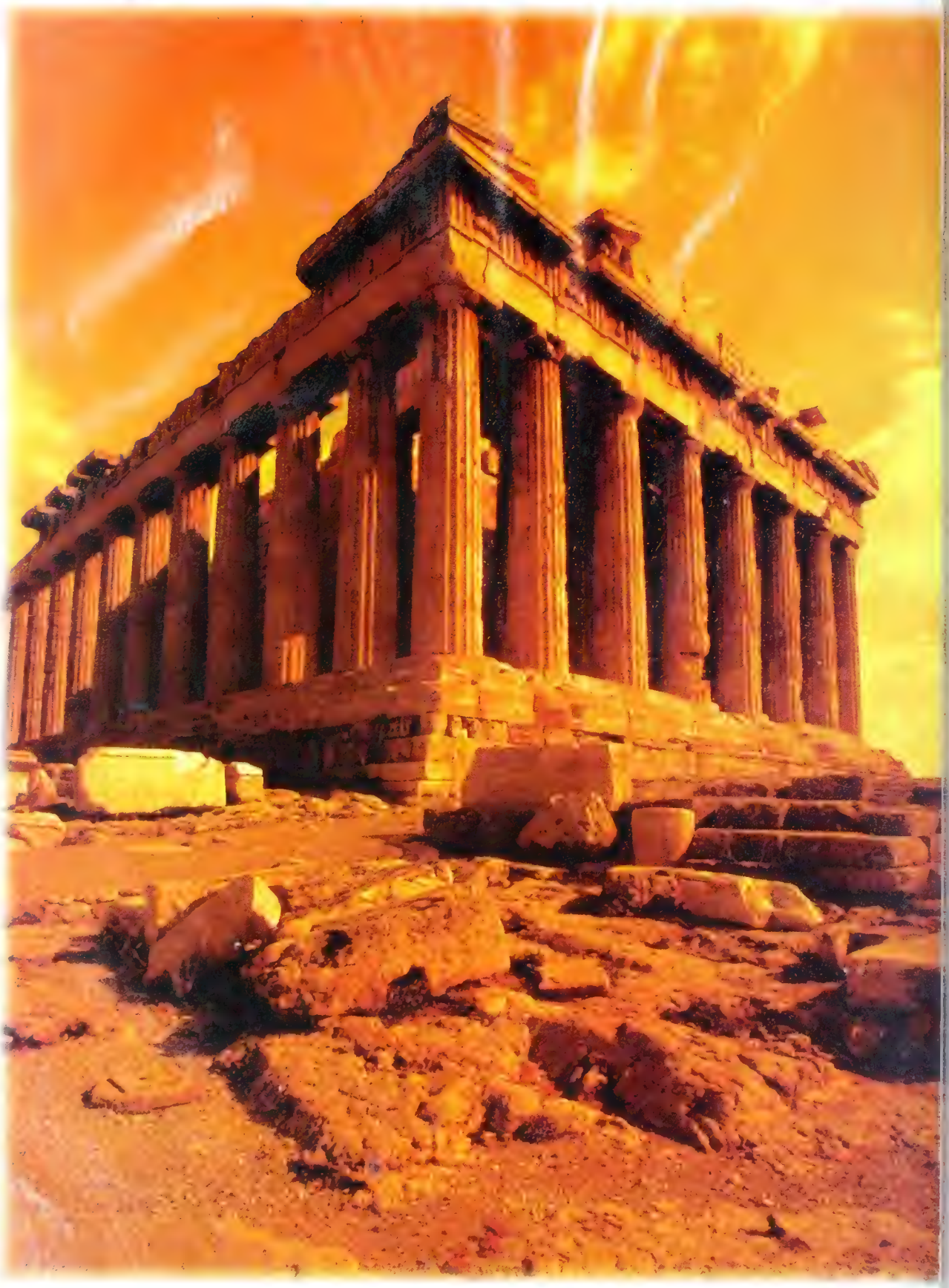

THE PARTHENON, *Athens, Greece*

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JOHNSON CONTROLS

Government

opening markets, Tokyo's entrenc trade bureaucrats are continuing t resist.

■ **THE GRAY EMINENCE.** The institutio memory of the U. S. Trade Represe tive's Japan cadre is 48-year-old Wolf, a Bush holdover with an ency pedic grasp of Japanese trade. A fo mer Tokyo-based representative for Motorola Inc., he heads the USTR's Ja desk. Wolf's brusque manner belie razor-sharp wit, and he is the offi with whom the Clintonites consta touch base to gain historical pers tive on trade talks.

While he loves all things Japan and is a collector of Japanese art furniture, Wolf doesn't buy the no that Japan these days is moving clo to Western-style business practices. believes that only an aggressive U push will work against the ingra fabric of Japan's trade barriers. "P sure definitely works with the Ja nese," he says.

■ **THE SECRET WEAPON.** Assisting Wo Charles Lake, the USTR's deputy dire of Japanese affairs and something cross-cultural wunderkind. Lake's m er is Japanese, and he grew up in kyo, where he served as a legisla aide in the Diet.

Negotiations are always conduc through interpreters to avoid misun standings, so Lake won't need his fl less Japanese at the bargaining ta But his command of the language re larly startles the Japanese bureauc and business leaders who visit USTR's office. "The Japanese are not u to American officials speaking like a tive," says Lake.

Lake's assignment in the framew talks will be to lead negotiations opening the Japanese insurance mar to U. S. companies. He is also the ho expert on efforts to sell more U. S. co puters to Japan. Both tasks are imp sive, given Lake's age—31. Lake "kn how Japan really runs," says Erin dean, former head of Japanese affa under Carla Hills.

Good as they may be, however, hard to find anyone in the ranks of b ness who doesn't think that the To Trio could use a platoon of reinfor ments. "We have entered a time wh we may need lifelong Japan- or Euro watchers, like the old Sovietologis says Wolf. "Outside the State De we've never developed that [experti in government." But with federal b gets as tight as they are nowadays, the time being Barshevsky, Wolf, a Lake will have to soldier on alone—th stealthy samurai against a battalion Tokyo's best.

By Douglas Harbrecht in Washing

capability:executive programs

SURVIVING THE PEACE

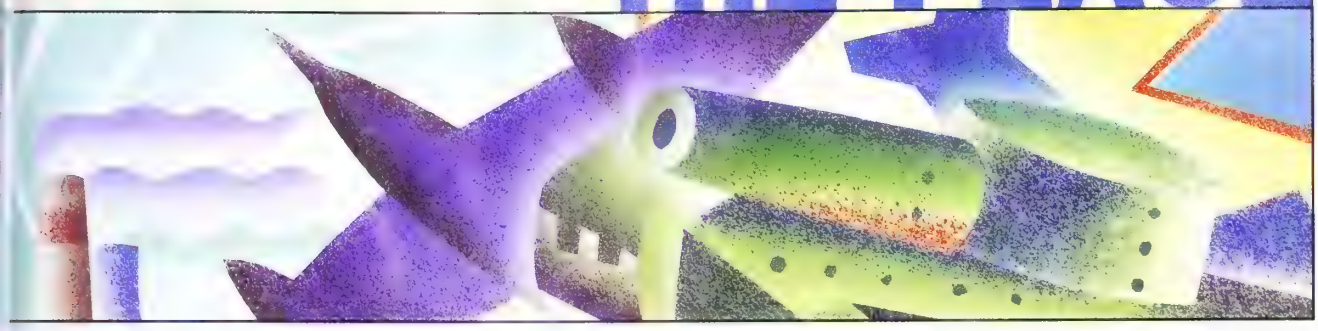

Illustration by Nickolai Punin As seen in BusinessWeek, January 13, 1992 Issue

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Surviving the Peace: The Conversion and Realignment of the Defense Industry

Date: Tuesday, November 30 and Wednesday, December 1, 1993
Place: The Regent Beverly Wilshire Hotel, Los Angeles, California

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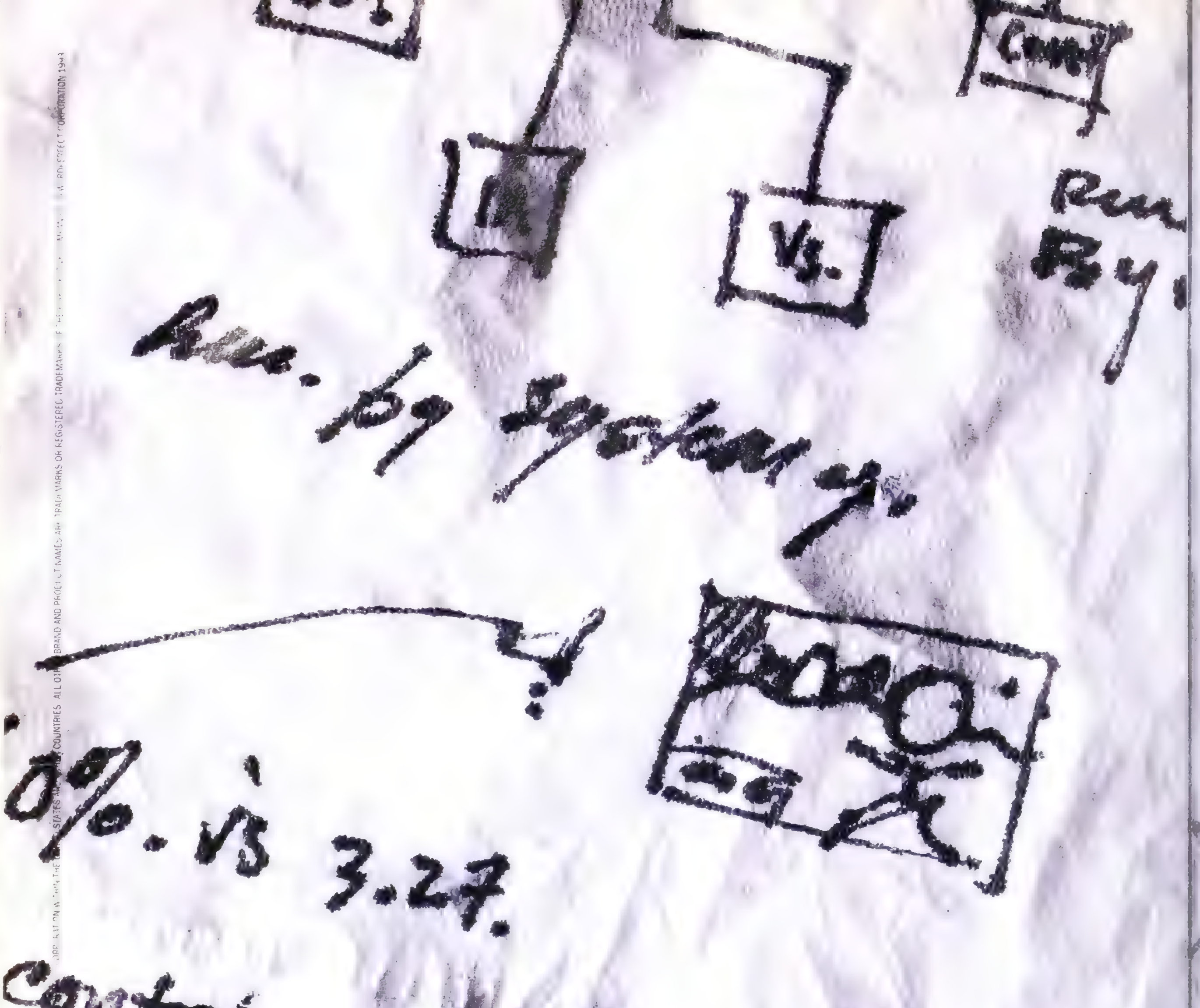
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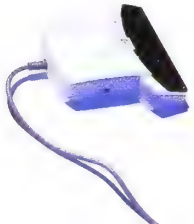

WordPerfect Presentations

FOR WINDOWS

A NOTEBOOK THAT PUTS USERS AHEAD OF GIMMICKS

NEC's hot-selling UltraLite Versa lets owners modify the machine with snap-in components

When NEC Corp. senior industrial designer Katsuhiko Kushi did field research for a new notebook computer in California, he noticed that people double-tasked, talking on the phone and writing as they geared up to use the machine. Conclusion? A laptop that requires two hands to open and close is ill-suited to the real working world. Kushi decided that NEC's new notebook would have a single center latch, easily opened with one hand.

The new latch is only the most obvious of the user-focused design details that have enabled NEC to resurrect itself from the laptop cellar. Beneath the pleasingly rounded exterior of the new NEC UltraLite Versa lurks a novel technical design that lets owners modify the machine as needed with a series of snap-in components. The result: Since its release in April, NEC has doubled its share of the booming notebook market. By July, the Versa had given NEC a 5% share of retail sales, up from just 2.5% in March, according to InfoCorp in Santa Clara, Calif., which tracks retail computer sales. NEC expects Versa to grab as much as a 10% share of the booming U. S. notebook market by year-end.

OUTSIDERS. Not bad for a company that holds over 50% of the computer market in Japan but has bombed out again and again in the U. S. The pattern is familiar: Like most Japanese electronics giants, NEC is run by engineers who dominate the product-development process. In technology-crazy Japan, stuffing computers with bells and whistles keeps sales humming. But in the U. S., where customers like convenience along with performance, that strategy has failed.

For instance, NEC engineers developed a touch-screen notebook because they felt NEC technology could make it feasible. They never considered whether anyone actually wanted to buy one. Few did, and the UltraLite SL20P notebook, released in October, 1991, went nowhere. A little homework would have prevented the gaffe. Years before, Hewlett-Packard Co.'s TouchScreen computers had fizzled. NEC's engineers also decided to omit a floppy disk to save size and weight in an earlier version of the UltraLite, and again U. S. customers jeered.

To recoup its failing fortunes in the $7.6 billion American market, NEC did something revolutionary for its corporate culture—it turned to an outside industrial-design consultant, IDEO. The Palo Alto (Calif.)-based firm has a reputation for engineering complex designs into products, not simply adding pretty stylistic facades. It was IDEO that refocused NEC on meeting customer needs.

NEC soon discovered what Apple Computer Inc. and IBM had learned already with their successful PowerBook and ThinkPad models: People are beginning to use a single computer for office, home, and travel. In the process, notebooks are being transformed from mundane office products to more personal electronic companions.

Kushi and IDEO took the lesson one step further and realized that even though individuals were using just one computer, their computing needs varied according to where they were operating them. People who spend a lot of time on the road, for example, need a way to get extra battery power.

So NEC designed the Versa as an extremely versatile notebook. The most striking feature of the design is its modularity. Every major component of the Versa, including display screen, disk drives, power supply, and memory, snaps in and out. That allows buyers to

VERSATILITY The screen can be lifted up and turned around to show sales figures to others.

MODULARITY All major components can be configured for home, office, travel: Disk drives can be removed, second battery can be inserted, memory cards can be upgraded.

PERSONALITY Rounded flat panels give the notebook the look and feel of a consumer appliance, not an office product.

USABILITY Fingertip grips on the exterior allow the notebook to be easily carried in one hand.

JOHN WILKES

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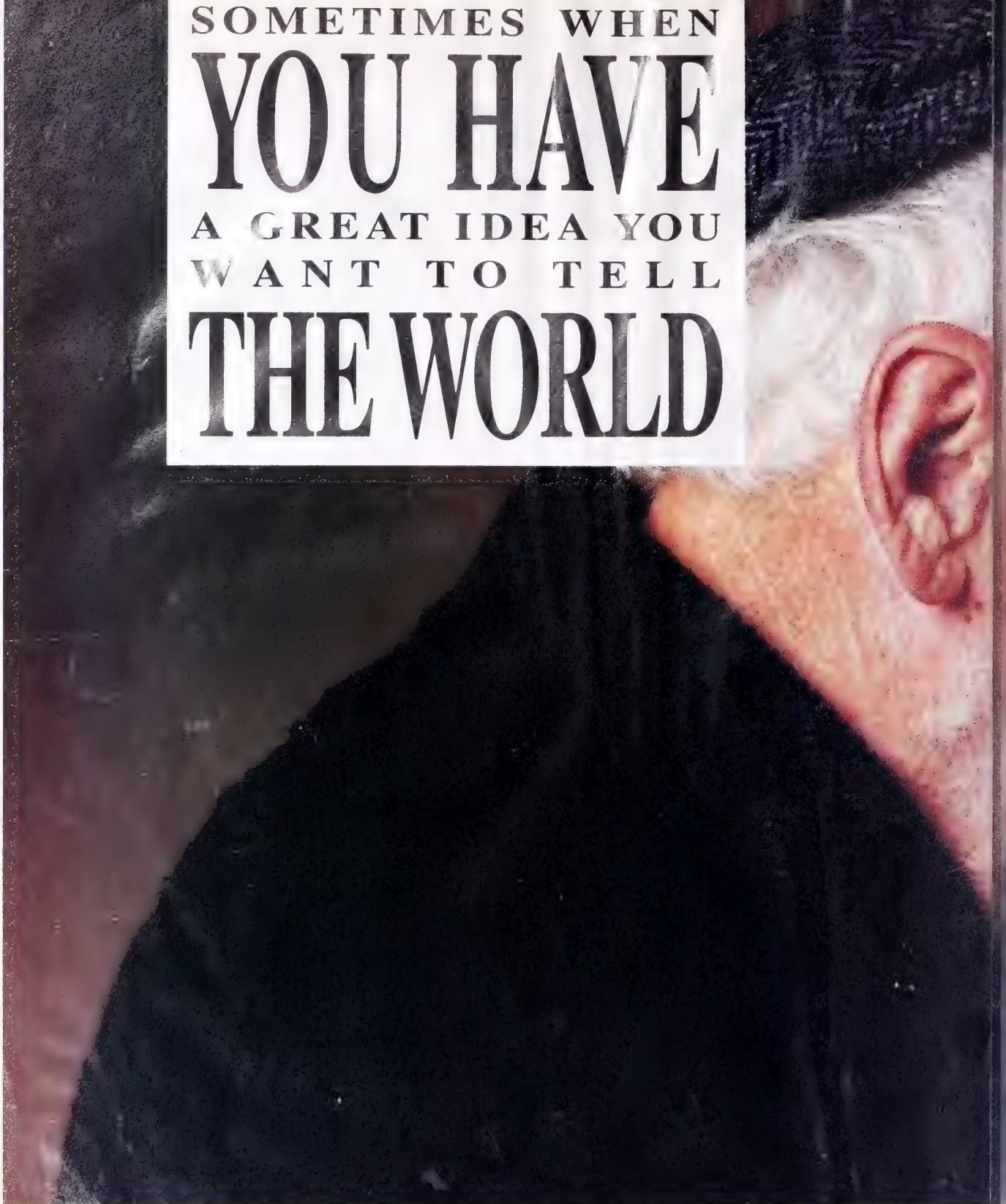

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rapidly reconfigure the machine as needed for home, office, or travel use. The key was in designing the different latches and ports to make for easy attachment or removal of the components—no small feat. There is even a pen-PC version that has a detachable screen that can be flipped and used like a clipboard with an electronic pen.

This versatility became a big selling point. Former IBM notebook customer Joe Schodrowski, a district controller for Ryder Truck Rental Inc., bought the Versa because the screen can be detached and reversed. When he's making presentations, the screen allows a number of Ryder agents to see his graphs and charts at the same time. What's more, the clear design makes using the features easy. "It's pretty self-explanatory. Everything looks like what it's supposed to do," says the Augusta (Ga.) financial manager.

Versatility also sold the sales force at Buckbee Mears Cortland in Cortland, N.Y., which supplies screenmaking technology to television manufacturers. Because they spend a lot of time away from electric outlets, the salespeople want as much battery life as possible. "Our salesmen travel from here in upstate New York to Korea to Brazil. So the idea that we can take two batteries and change the configuration has turned out to be very valuable," says Buckbee Mears computer buyer Ray Pratt.

JAPANESE INTEREST. NEC hopes to use the Versa design strategy to build a whole series of what it calls "environmental" products that fit the way customers work—and that reflect their surroundings. Among other things, the Versa's curves and rounded edges are meant to blend in with such home-electronics gear as stereo equipment. "We intend to market these products based on their impact on the user's life," says NEC Technologies Inc. Senior Vice-President Jerry Benson, who oversees NEC's portable, monitor, and media products.

The success of the Versa in the U.S. has caught the attention of NEC management in Japan. That's a major coup. When Kushi first took his new design to Japan last year, it was rejected by the parent company for the home market. "The marketing people in Japan didn't want to change," says Kushi. Adds Bill Moggridge, a founding partner of IDEO: "There was a disconnect between corporate design and engineering divisions."

That's changing. Versa has been so successful in the U.S. and Europe that NEC's newest notebook for the Japanese market uses much of its design. Even rivals are catching on: IBM is incorporating modularity in its latest ThinkPad 750.

By Gary McWilliams in Boston

ZENITH DATA: GOOD LOOKS MAY NOT BE GOOD ENOUGH

While NEC Corp. is basking in the success of its thoroughly redesigned notebook computers, rival Zenith Data Systems Corp. is learning the hard way how dangerous a redesign that is only skin deep can be. In the months since the Buffalo Grove (Ill.) portable-computer pioneer launched its restyled models, its share of the notebook market has been on a downhill roll.

In 1991, Zenith Data Systems spent millions to give its portables, desktop PCs, and computer monitors a new look. The makeover, by frogdesign Inc., the famed stylist of Apple Computer Inc.'s Macintosh, tries for a "quality" image through crisp lines and strings of square dentils, or blocks, around the edges of the computer and its screen.

Zenith considers the redesign a triumph: The resulting Z-Series computers have twice this year received industrial-design awards, including a third-place award in August from the Industrial Designers Society of America. "One of the main goals was to improve the image of the company," says Brian Manser, the senior product manager for portables who worked on the redesign. "We've been very successful in that."

COLOR SCHEMES. Since the June, 1992, release of the Z-Series machines, however, Zenith Data's monthly share of retail sales has plummeted. It hit 1% in July, down from 3.4% a year earlier, according to InfoCorp. Zenith, for its part, says the decline reflects a shift by consumers to superstore outlets where it has little presence.

Where NEC's new design accentuates the modularity of its UltraLite Versa portable and its ability to tailor technology to different customer needs, Zenith Data's puts style over function. Critics say the design fails basic laptop ergonomics—for example, by using latches that require two hands to open. Instead of studying customers at work, Zenith's designers pored over color schemes and surface details, relying on existing ergonomic studies for g[u]ance. Repeating dentils "gets gra[t]itous," says Robert Brunner, App[le]'s director of industrial design. Good [de]sign "has to go deeper into the prod[uct] and what the product does [in ord[er] to help people interact with it."

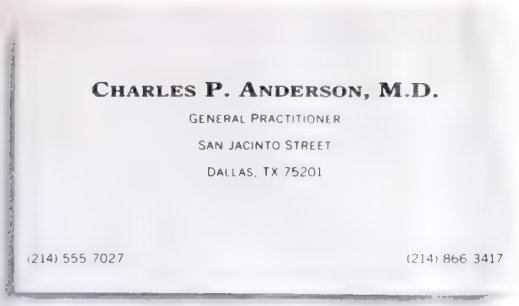
What rivals see as shortcomings [in] the Zenith redesign are all the m[ore] remarkable given the advanced te[ch]nology and competitive prices of the Z-Series notebooks. When they first [ap]peared, they were the lightest lapt[ops] with color active-matrix liquid-crys[tal] display screen technology and the f[irst] to have built-in networking capabil[ity].

Another problem has been that [the] design did not anticipate new manu[fac]turing requirements. Delivery of [the] 3.9-pound Z-Lite computer, Zenith's [en]try in the subnotebook category, w[as] delayed seven months, in part beca[use] of a mismatch between industrial-[de]sign and manufacturing requireme[nts], concedes Manser.

Zenith Data isn't giving up on [the] Z-Series design just yet. Overall sa[les] slumped at the Groupe Bull subsi[di]ary, to about $900 million last y[ear] from $1.2 billion in 1990, but Man[ser] insists the design isn't at fault. Wh[en] Zenith Data's next-generation no[te]books will incorporate new ease-of-[op]eration features, they will still focus [on] straight lines and rows of square de[n]tils. "We aren't yet reaping the [full] benefit of it," insists Manser. Me[an]while, the market speaks.

By Gary McWilliams in Bos[ton]

THE Z-NOTE PLUS: DESIGNERS FOCUSED ON SURFACE DETA[ILS]



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THE BOOM BELT

THERE'S NO SPEED LIMIT ON GROWTH ALONG THE SOUTH'S I-85

If you want to know why the South is rising again, consider Project Pretoria. That was the code name BMW gave to its search for a low-cost site for a plant to make its popular 3-series models. Over three years, the auto maker scoured 250 locations in 10 countries. By the spring of last year, the battle for the $400 million facility was reduced to a showdown between Nebraska and South Carolina.

South Carolina, BMW officials mused, had in its favor a temperate climate, year-round golf, and, as the dollar declined against the mark, inexpensive antebellum mansions. There was just one problem: The only site that appealed to BMW executives was a 1,000-acre tract off Interstate 85 containing a large number of middle-class homes.

BLITZED. That obstacle evaporated under a determined onslaught by state officials. Sweet-talking pols, including Republican Governor Carroll A. Campbell Jr., blitzed the community near Spartanburg with visits and phone calls. Within 14 weeks, the state and local governments had spent $36.6 million to buy all 140 properties—including a home that one family had just finished building two weeks before they were approached. It was a stunning display of the state's efficiency and eagerness to attract new employers. And it paid off in June, 1992, when BMW said it would bring 2,000 jobs and a $66.5 million annual payroll to South Carolina.

The courtship of BMW was only the latest success for a region that has embraced the global economy like no other. Despite some resistance from old business barons, the area's leaders have assiduously wooed foreign direct investment and pushed ambitious export programs. In part, the newcomers are attracted by the region's cheap labor, low taxes, and few unions. But increasingly, satisfied companies point also to a distinctive brand of industrial policy.

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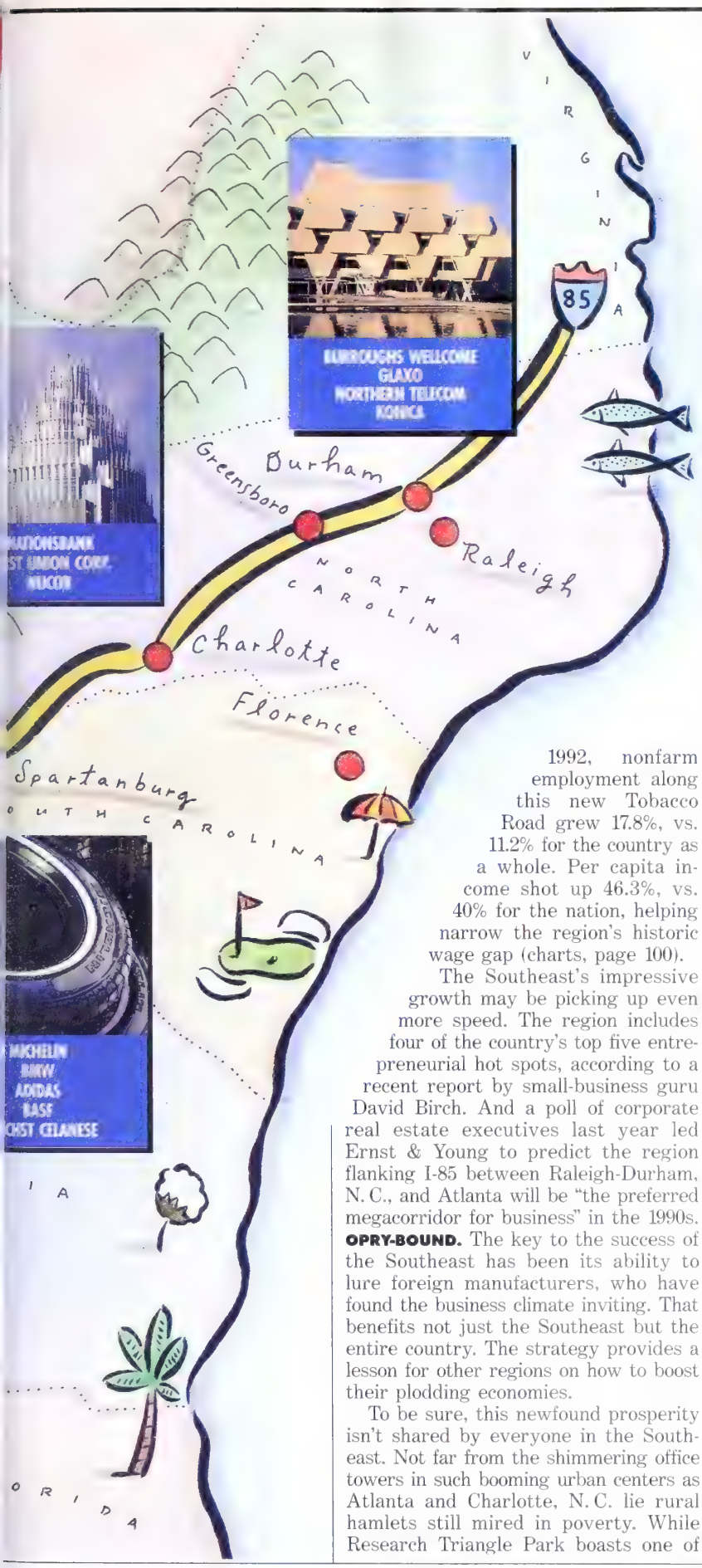
South Carolina has been in the forefront of public-school reforms designed to produce a more skilled work force. North Carolina created an attractive atmosphere for high-tech companies around the world-renowned Research Triangle Park. Officials throughout the region have devised innovative training programs and have promoted infrastructure projects such as Atlanta's Hartsfield International Airport and Tennessee's state-of-the-art telephone network.

The strategy has helped transform the region bordering I-85, the Southeast's primary transportation artery, from a sleepy economic backwater into an area that's growing as fast as its prolific kudzu vines. Between 1985 and

SOUTHERN HOSPITALITY

Foreign and domestic companies are flocking to take advantage of a friendly business climate and generous incentives



1992, nonfarm employment along this new Tobacco Road grew 17.8%, vs. 11.2% for the country as a whole. Per capita income shot up 46.3%, vs. 40% for the nation, helping narrow the region's historic wage gap (charts, page 100).

The Southeast's impressive growth may be picking up even more speed. The region includes four of the country's top five entrepreneurial hot spots, according to a recent report by small-business guru David Birch. And a poll of corporate real estate executives last year led Ernst & Young to predict the region flanking I-85 between Raleigh-Durham, N. C., and Atlanta will be "the preferred megacorridor for business" in the 1990s.

OPRY-BOUND. The key to the success of the Southeast has been its ability to lure foreign manufacturers, who have found the business climate inviting. That benefits not just the Southeast but the entire country. The strategy provides a lesson for other regions on how to boost their plodding economies.

To be sure, this newfound prosperity isn't shared by everyone in the Southeast. Not far from the shimmering office towers in such booming urban centers as Atlanta and Charlotte, N. C. lie rural hamlets still mired in poverty. While Research Triangle Park boasts one of the nation's highest concentrations of PhDs, more than one-third of the adults living in North Carolina's 75 rural counties never finished high school—and 45,000 homes still lack indoor plumbing.

For this rural underclass, the best economic opportunities still lie in dirty, low-paying jobs in cut-and-sew sweatshops or poultry factories (page 104). Small wonder that Southeastern states still rank among the nation's worst in such measures of social progress as infant mortality and literacy. "We've got parts of this state that look like Bangladesh, except they're slightly better fed," admits one North Carolina official.

But much of the region looks more like Japan or Germany—and that's by design. In the 1950s, long before such thinking was fashionable, Southern leaders figured their economic salvation lay abroad. They realized they needed to expand their economic base beyond its primary industries, textiles and tobacco. So governors began trekking to Europe and Asia to recruit new industry and to promote exports. Their first successes came in convincing German makers of textile looms to begin producing them in South Carolina, closer to the mills. And thanks to aggressive export promotion offices in Europe and Asia, North Carolina today claims to be one of the few states that runs a trade surplus.

NATIVE ATTRACTIONS. State recruiters have even managed to exploit the stereotypes many foreigners have about the region. When Tennessee officials began traveling to Japan in the 1970s, they realized that all that Japanese executives knew about their state was "Jack Daniel's, the Tennessee Waltz, and country music," says John C. Word, one of the state's top industrial recruiters. So when they host receptions in Tokyo, state representatives serve Jack Daniel's while teaching their Japanese guests how to dance to the Tennessee Waltz. When Japanese visit, Tennessee recruiters take them to the Grand Ole Opry in Nashville and give dulcimers as gifts. To leave lasting impressions with foreign executives, Atlanta has hired models to impersonate characters from *Gone With the Wind*. "We've used Rhett and Scarlett," says Glenn Cornell, senior vice-president of NationsBank of Georgia. "We've used peanuts. We've used peaches. We've used whatever it took."

This early missionary work is paying big dividends. With the increase of U. S. competitiveness prompting more foreign manufacturers to shift production to America, the Southeast has been the biggest beneficiary. Between 1990 and 1992, North Carolina lured 93 new foreign-owned plants. South Carolina attracted 45—as many as New England and the mid-Atlantic region combined.

Nowhere is the foreign presence more

visible than in the rolling foothills of the Blue Ridge Mountains in the western part of South Carolina. So many German companies have flocked to this area that locals have nicknamed one stretch of I-85 "the Autobahn." In Spartanburg, a county of 230,000 that claims the highest per-capita foreign investment in the U. S., the roster of foreign manufacturers includes Hoechst Celanese, BASF, BIC, Michelin, Hitachi, Adidas, and Menzel, which last year imported two huge pieces of the Berlin Wall for its lawn.

Statewide, one out of every four manufacturing workers in South Carolina gets a paycheck from a foreign employer. That number could increase if the state lands a new $300 million plant being planned by Daimler Benz, which is said to have narrowed its search for a Mercedes plant site to the Southeast. State officials are pushing the carmaker to locate near Charleston, where the closing of the Navy Yard will eliminate thousands of skilled jobs.

RESEARCH HEAVEN. North Carolina, with its recent success in attracting foreign investment and high-tech research jobs, isn't far behind. The prime draw: Research Triangle Park, a state-conceived development designed to lure companies to the research conducted at nearby schools such as Duke University and the University of North Carolina. IBM developed the bar-code scanner in the Park, Northern Telecom conc research and development in d switching technology there, and roughs Wellcome Co. refined and mercialized two of its best-selling d AZT and Zovirax.

The Southeast's innovative appr es aren't its only appeal. The reg relatively low wages and rabid anti-unionism have persuaded many companies to move to the area. In rural Morganton, N. C., ITT Automotive last January hired 440 workers to assemble anti-

Charlotte has becom the nation' third-larges banking ce

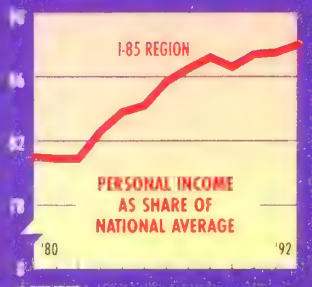
THE I-85 REGION: ANATOMY OF A RISING STAR

MANUFACTURING IS GROWING...

...AND SO ARE FINANCIAL SERVICES

NORTH CAROLINA, SOUTH CAROLINA, TENNESSEE, GEORGIA

THE INCOME GAP IS NARROWING...



...AND SO IS THE EDUCATION GA

PERCENT OF PEOPLE OVER 25 WITH:	U.S. AVERAGE	I-85 REGION
	'80	'9
FOUR YEARS OF HIGH SCHOOL	66.5	77.
	55.4	70.
FOUR OR MORE YEARS OF COLLEGE	16.2	21.
	13.5	19

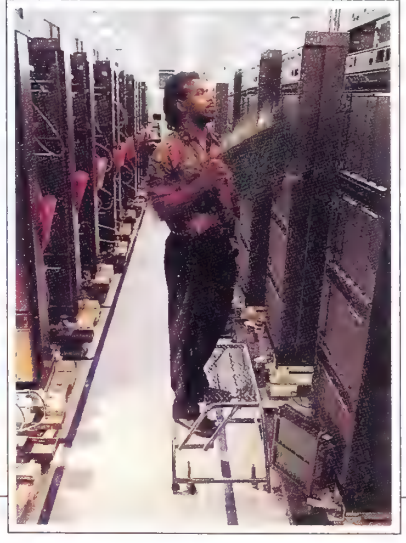
DATA: BUREAU OF LABOR STATISTICS, COMMERCE DEPT., EDUCATION DEPT., BUSINESS WEEK

braking systems at a starting pay .31 an hour. That's well above the market rate, but less than half the nal auto-industry average of $15.42. r workers who move from other of the country, the pay can be dis- ng. John Friend, a 31-year old Ohio e, blindly headed south five years ıfter losing his $10.75-an-hour job at ıto supplier in Sandusky. The first ıe found after moving, at a light factory, paid a mere $5 an hour. Friend felt he had ıoice. "Ohio died," uid. "You couldn't ı job in Ohio."

he region's older strialists are try- mightily to pre- e their heritage— cularly the low s. Two years ago, up of 500 Greens- (N. C.) business- ined forces to dis- age United Air- Inc. from locat- a $500 million tenance facility e. United could brought the city) maintenance but they would been unionized ions averaging)00 a year. In- l, United opted for Indianapolis.

T-GUARD ACTION. The troglodytes be fighting a losing battle. In many er towns along I-85, wages lurch upward. In Spartanburg, for in- ce, Michelin workers make $15 to an hour building truck tires. And Friend now earns $11.35 an hour at w Matsushita air-compressor plant ural Mooresville, N. C. With an influx igh-skilled jobs, the gap between region's per capita income and the onal average shrank from 19% in to 12% last year. "Nobody comes to h Carolina just for cheap land and p labor any- e," says Ed- ion Secretary ard W. Riley, mer governor of h Carolina.

early suc- s, Research angle lured wyweights Northern ecom



Indeed, many manufacturers say the region's cooperative approach is far more of an enticement than labor costs. Among the inducements that appeal most to German manufacturers: training programs for new workers that effectively serve as state-sponsored apprenticeships. To land the BMW plant, South Carolina agreed to screen all job applicants and then train BMW's entire work force through the state's technical schools (page 102). When the company later decided to send some of its new engineers to Germany for firsthand instruction, South Carolina raised an additional $2.8 million from private sources to cover that expense.

Critics contend that the states are "buying" industry at too steep a price. The financial incentives necessary to land the BMW plant—including a $1-a-year lease on the 1000 acres—will cost South Carolina taxpayers $130 million over 30 years, although most of the incentives are in the first year. Douglas McKay III, one of the state's top economic recruiters, counters that most of the inducements were in the form of trained workers and improved roads, which would remain if BMW ever left. McKay adds that the state only provides extensive incentives for those companies that agree to make at least $85 million in capital investments and provide health care and other benefits for its entire work force.

If governments are generous with incentives, it's because they seem to work. Since 1984, Stabilus has expanded its nine-year-old Gastonia (N. C.) plant steadily, from a couple dozen workers to 320, while its original, unionized Pennsylvania plant hasn't grown in 20 years. The reason: Stabilus, a German maker of gas springs, takes advantage of North Carolina's pledge to provide training for any manufacturer adding six or more new workers. "We have never gotten a red cent from the state of Pennsylvania," says manufacturing director Edward L. Novotny. "You want to go where you feel wanted."

To lure BMW, South Carolina bought back 1,000 acres with middle-class housing

While the investments in human capital have proved important, Southern leaders also have spent heavily on an advanced infrastructure. Atlanta's development of Hartsfield International Airport has enabled the city to move beyond the regional sales offices that were located there and snare corporate headquarters. In recent years, United Parcel Service, Saab, Holiday Inns, and the world relief group CARE have all moved to Atlanta. And Hartsfield's capacity was instrumental in the International Olympic Committee's decision to award the 1996 games to the city.

If Atlanta bet its future on air transport, Tennessee leaders gambled in the late 1970s that phone lines would serve as the critical "information highways" of the future. The state struck a bargain with local phone companies in the early 1980s: They could raise rates aggressively if they funneled the money into state-of-the-art digital switches and fi-

ber-optic lines. This high-tech system has helped bring thousands of new jobs to Knoxville alone: Two years ago, for example, Travelers Corp. opened a 250-person office in Knoxville that handles customer calls from half the country about its personal insurance lines.

LOCAL HEROES. Finance has also helped fuel the Southeast's renaissance. Charlotte has become the nation's third-largest banking center, behind New York and San Francisco. A decade ago, Southern governors watched in horror as New York banks pressured Congress to allow nationwide branching. So the politicians circled the wagons by enacting laws that allowed mergers among banks within the region—but blocked outsiders from coming in. That gave local banks the chance to consolidate and create superregionals with the critical mass to take on the money-center banks. Now, North Carolina is home to NationsBank, the nation's fourth largest, First Union, the ninth, and Wachovia, the twenty-second.

In a region long dependent upon outsiders for capital, these megabanks give the Southeast new financial muscle. For the first time, some Southeastern banks are draining deposits from other areas to support growth at home: NationsBank calculates its loan-to-deposit ratio in North Carolina at 100%, compared with the 77% national average. And in South Carolina, the ratio is up from 73% to 120% since NationsBank acquired a competitor in 1986. "There is financial clout in this region that virtually any company can uti... says NationsBank executive Joe... Smith III.

With so much money flowing int... area, the Southeast may have more... trol over its economic destiny. F... decades it has been beholden to far... banks and corporate headquarters... that's starting to change. Consider... bane Packaging Corp., a $70 m... North Carolina maker of pharmace... packaging. Five years ago, with th... vately held company's owners ne... retirement and anxious to cash out... bane executives searched the East ... for financing that would allow the... keep control. But all they got wer... fers from buyout groups in New Yo... Boston, who would have taken ove... company and flipped it for a profit.

But First Union's then-nascent ...

WORKERS TRAINED TO ORDER—AT STATE EXPENSE

With some of the lowest high school graduation rates in the country, South Carolina has a reputation for an unskilled and poorly trained work force. Yet in recent years, the state has managed to turn its oft-maligned educational system into a prime weapon in the battle for foreign investment, enabling the state to attract major manufacturers such as BMW.

The secret of its success is the Special Schools program. Started in 1961 to stem the flight of the state's young laborers, the program now custom-trains production workers for incoming foreign and domestic manufacturers. What workers lack in technical skills or book learning, South Carolina will supplement with extensive training programs—at no cost to the employer. "We will train your people to your specifications at the state's expense," says Robert W. Taylor, associate director of the Board for Technical & Comprehensive Education.

South Carolina not only runs help-wanted ads, it screens workers

HOT CONCEPT. Special Schools serves as a one-stop shop for worker development. First, the program's curriculum unit works with the employer to create training courses and develop work manuals. Then, a staff of instructors, often drawn from the company's own managers, are hired by the state to run the classes at one of the state's 16 technical colleges or at the plant site.

Special Schools provides math and reading instruction, plus training in such areas as conflict resolution, effective communication—even statistical process management. Overall, some 6,500 workers at over 120 plants in South Carolina participated last fiscal year, costing the state about $6.4 million. This year's budget: $10.8 million.

The program has been a lure for German companies that are used to a highly trained work force at home. For companies such as BMW, Special Schools does everything from running help-wanted ads to screening workers based on factors such as hand-eye coordination and openness to working as part of a team. "We guarantee BMW ... they'll have five qualified candid... for each job opening," says Taylor.

The companies seem satisfied. "W... the help of the Special School syst... the people here are able to accomp... the work," says George Kubina, m... ager for the German-owned Hel... Helvetion International plant in L... can, S. C. The plant, which makes r... ator tubing, opened last Novem... and now has 72 workers who w... through the program.

While the Special Schools progra... not cheap, the payoff is huge. Ot... states must ask not whether they ... afford to follow South Carolina's ... ample, but whether they can aff... not to.

By Maria Mallory in Spartanburg, S...

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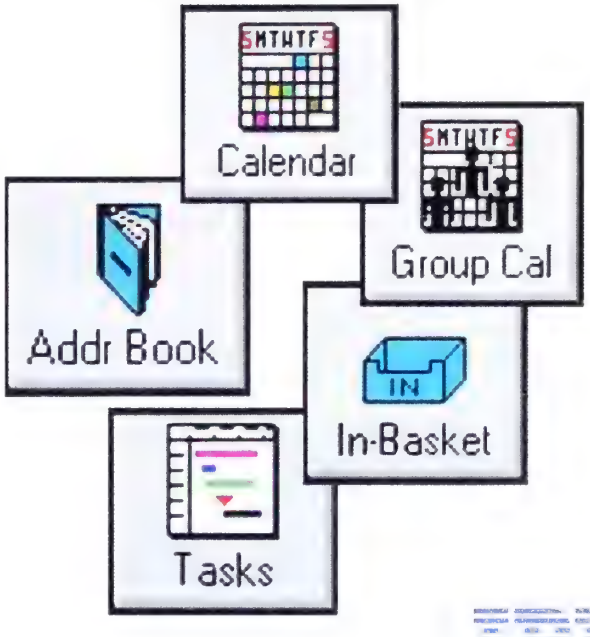

chant banking group put up $25 million. That let Mebane's management buy the company and keep local control. Mebane built a plant in nearby Garner and two years ago reversed the usual trend by acquiring a major New Jersey rival. "If First Union hadn't come along with financing, we would likely have been sold and our whole character would have changed," says Chairman James H. Corrigan Jr.

Critics note that for all its success in attracting outside investment, the New South still faces challenges. The region's leaders have yet to figure out how to grow many businesses at home. North Carolina has one of the nation's highest failure rates for businesses. And Research Triangle Park in the past has been unable to spawn startups on the scale of Silicon Valley and Boston's Route 128. Experts cite the South's risk-averse culture, which has discouraged venture capital, as well as the universities' restrictive policies against transferring technology to private ventures.

"STILL SHADOWS." More troubling is the growing disparity between the I-85 corridor and the counties that have missed the new investment. Political leaders are trying to fight the trend. To attract business to its 80 neediest counties, Georgia offers an annual job tax credit of up to $2,000 for each new job created. And in March, Democratic Governor Zell Miller created the Governor's Development Council, which will pull together major universities, chambers of commerce, and businesses active in economic development, such as Georgia Power Co. and NationsBank, to draft an economic development plan for the state. "There are parts of Georgia that are still shadows in the Sunbelt," says J. Mac Holladay, the council's COO.

Even with such incentives, Southeast officials concede it's hard to convince companies to locate in poor rural counties far removed from I-85. "When you get away from this corridor, the jobs aren't out there," admits Robert B. Jordan, head of the North Carolina Economic Development Board.

Bringing hope to these impoverished areas may be the biggest problem facing Southern leaders. But if any region has a chance of succeeding, it's the South. It has shown that with a strong will and some shrewd planning, it can overcome its legacy as an economic backwater. Like Scarlett O'Hara, the South seems intent never to go hungry again.

By Dean Foust in Charlotte, N. C. and Maria Mallory in Atlanta

MEANWHILE, IN THE OTHER SOUTH

Route 64 is no Interstate 85. As the two-lane road rolls into Siler City, N. C., the skyline is dotted with burger stands and car dealerships, not gleaming glass-and-steel office buildings.

This is chicken country, an hour or so west—and a world away—from Research Triangle Park. Siler City enjoys an unemployment rate of only 3.2%, thanks to the chicken processing plants owned by Townsends Inc. and Showell Farms' Mid-State Farms. Overall, the Southeast accounts for 50% of the $20 billion U. S. chicken industry, employing 125,000 workers across the region.

Poultry prosperity is a mixed blessing, though. Injury and illness rates for poultry workers are double the rates of manufacturing generally, according to the Labor Dept. And new technology is used to reduce stress for chickens—to make their meat more tender—rather than for workers. "The industry has one foot in the 21st century when it comes to chickens, but they left one foot back in the 19th century when it comes to people," says Bob Hall, research director of the Institute for Southern Studies, a labor-funded advocacy group in Durham, N. C.

BLOOD 'N' GUTS. James C. Walston, Townsends' vice-president for human resources, defends his Siler City plant's record, noting that it has hired a registered nurse and launched an ergonomics program. "We recognize we need as much prevention as can get," he says. Donald Schae Showell Farms' vice-president for man resources, says similar step his company haven't cut the inj rates, but "the injuries are far less rious because we catch them earli

Conditions on the production can be tough. Repetitive motion f such tasks as pulling out chicken can cause disabling injuries. Employ frequently spend shifts in eithe freezing cooler or 95F heat. Condit can be so crowded that blood fro chicken one worker handles can so times splash onto a co-worker. line speed—up to 90 chickens a

In Siler City, N.C., "nothing else pays like the chicken plant"

ute—is double the rate a decade

With little schooling, workers towns such as Siler City, popula 5,000, have few other job choices. could go back, I would," says Will Goldston, 41, who worked at Mid-St until he developed carpal-tunnel s drome. "What else can I do? I d got no education, and nothing pays like the chicken plant."

Siler City Manager Leonard Ba foot calls the chicken industry "a gr asset," but he wants to attract j that offer more than the $6.50-an-h maximum that poultry pays. The pr lem is that compared with other pa of the state, "we don't have as de oped a work force," says Baref With consumer demand for chic still rising, towns such as Siler C will increasingly depend on poul employment. And the clean, well-p ing jobs will end up elsewhere—us ly near I-85.

By Jennifer Toth in Siler City, N

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**PROJECT FINANCE, an IFR newsletter – January 1993*

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MASTERS OF THE CLEAN ROOM

ow Samsung upstaged Japan to become No. 1 in DRAMs

or Jin Daeje, it's astonishing how little—and how much—things have changed in 10 years. Then and now, could revel in the prestige of doing al research on semiconductor design the premiere producer of those ubiq- ous memory chips known as DRAMs. ly then, the company was IBM. Now, Samsung Electronics Co., a chip non- ity in 1983. And Jin is no longer just ther researcher with a Stanford PhD. ce deciding in 1985 that, as a native, had "an obligation to be back in Ko-," Jin has become Samsung's manag- director of product development. He shepherded three generations of mory chips that have sent Samsung's p fortunes soaring.

Jin's chips, in fact, have lifted the ul company to No. 1 among the rld's suppliers of AMs, the semicon- tor industry's t-seller. Sam- g's DRAM business t up 35% last r, to $1.2 billion, sting DRAM rival hiba Corp. by $69 lion and boosting Korean compa- s total chip sales 29%, to $1.9 bil- . By matching the anese on quality delivery—and ating them on ce—Samsung is ly to claw its way o the top 10 of pmakers this year. msung is one of amazing stories the chip industry," s Bart Ladd, nager of U. S. AM marketing for Corp.

It's a lot more than that. Samsung's e proves that Tokyo's approach to in- strial policy needn't be peculiar to anese culture. Copying the tactics of an's Ministry of International Trade & Industry (MITI), the Seoul government used low-interest loans and pro-export policies to spur innovation. And it offered financial incentives to lure home Korean engineers and scientists working abroad. By the mid-1980s, Samsung and other Korean companies had a critical mass of research-and-development infrastructure and talent. Given Korea's success, says Jim Handy, an analyst at Dataquest Inc., the MITI model seems sure to be copied by others—India, Malaysia, maybe even China.

And to some extent, perhaps, by the U. S. as well. Michael G. Borrus, co-director of the Berkeley Roundtable on the International Economy (BRIE), argues that Washington has too often tried quick-fix protectionism to make American industries more competitive. The exception is Sematech Inc., the government-backed consortium in Austin, Tex., charged with restoring U. S. prowess in chipmaking equipment. Borrus is encouraged that the Clinton Administration sees Sematech as the pattern for similar efforts in emerging and risky technologies, such as flat-panel displays.

Skeptics question how durable Samsung's lead may be. Its chip business is more vulnerable than most to the price swings that periodically pummel the industry because 75% of its revenues are from low-margin commodity chips. U. S. and Japanese companies, by contrast, have diversified into microprocessors and other specialized chips, which normally produce fatter profits.

FOOTING THE BILL. Samsung's leaders reply that they intend to go on confounding the skeptics. Jin and his peers have so far avoided the shortsightedness of Silicon Valley, which during the 1980s reflexively chopped budgets for production equipment during cyclical downturns. That left them short of capacity in the upswings that followed like clockwork. Meanwhile, Toshiba, NEC, and Hitachi, having invested throughout the slump, would grab more market share.

This time around, it's Samsung with the deep pockets—and the victims are the recession-mired Japanese. With demand for chips languishing in their huge domestic market, wary Japanese managers have been slow to build new chip plants. That has left them ill-equipped to meet soaring demand for DRAMs. Not so Samsung, which exports about 80% of its output to the U. S. or fast-growing Asian markets. For the past five years, it has pumped $500 million or more annually into new facilities—as much or more than some companies twice its size. And this year it will invest $980 million, more than any producer except Intel Corp., the world's richest chipmaker.

Most of this year's spending is earmarked for facilities that will crank out 16-megabit DRAMs in volume. These hold more than 16 million bits of data, equal to about 700 typewritten pages. Samsung also has budget-

SUITING UP IN SOUTH KOREA: FOR FIVE YEARS, SAMSUNG HAS PUMPED $500 MILLION A YEAR INTO NEW CHIP PLANTS

ed $700 million for R&D on futuristic chips that will store 256 megabits. When IBM, Toshiba, and Siemens looked at their estimate of a $600 million design tab for 256s, they decided to share the costs. But Samsung Electronics, backed by its $50 billion parent, Samsung Group, is going it alone. "Money has been no problem," says Jin. "We ask for $1 billion, and we get it."

HEAD START. Such ambitious investments have already led to some stunning milestones. One came in 1990. Samsung wowed IBM, Digital Equipment Corp., and other customers by showing off a fully functioning 16-megabit chip, one of the first that really worked. It began shipping commercial samples of these chips last year—for the first time launching its latest DRAM generation in virtual lockstep with the Japanese.

Samsung's prospects with this product are excellent, analysts say, because it has better equipment. Its most advanced production line, in Kihung, will crank out a typical 20,000 wafers a month. And because each round silicon slab is 8 inches in diameter—vs. 6 inches at most facilities in Japan—Samsung gets up to 75% more chips from each wafer. The higher productivity lets Samsung charge less. Tack on recent worldwide price increases, and an observer stationed in Tokyo by U.S. industry figures that Samsung could reap close to $3 billion in total chip sales this year, a 50% jump. By contrast, NEC Corp. Senior Vice-President Hajime Sasaki says his company's chip revenues will grow just 7%—because NEC doesn't have the capacity to satisfy all its DRAM demand.

The Japanese can't be kept down forever. Toshiba expects to narrow the gap in DRAMs with its new 8-inch plant in Mie Prefecture, which came on line earlier this year. NEC, meanwhile, is shifting more DRAM production to its U.S. factory in Roseville, Calif., where output is sheltered from the effects of the strong yen. Also, 80% of the machinery in Korea's chip plants is imported, much of it from Japanese suppliers. "That means Samsung is dependent on Japanese technology to raise productivity," says Kenji Sato, general manager of Toshiba's memory division.

Korea also faces growing competition from modern chip factories going up in Malaysia, Singapore, Taiwan, and China—some with Japanese funding. Even more worrisome, the profit structure of the memory business may be facing a major change. Starting with the 64-megabit generation, which should hit the market in limited quantities next year, many analysts believe that demand will begin to atrophy because the storage capacity of each chip will be so cavernous. "Then the old strategies will not work anymore," predicts Integrated Research analyst Akira Minamikawa in Tokyo. Similar warnings have been sounded before, however—and new demand has always emerged to sop up whatever memory is available.

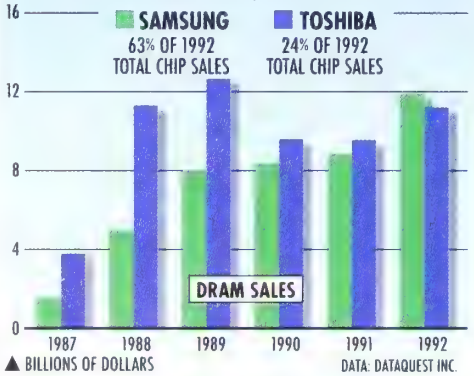
In any event, Samsung is already anticipating such problems. It has set up design centers for more advanced, software-intensive chips in the U.S., Germany, Taiwan, and Hong Kong. And by cultivating alliances with U.S. equipment companies such as Applied Materials Inc., Korean industrialists hope to lessen their dependence on Japanese production gear. Indeed, bureaucrats at Korea's Science & Technology Ministry broached the idea of a sweeping collaboration between the Koreans and U.S. high-tech sectors when President Bill Clinton visited Korea last July.

Absent such a grand alliance, Samsung's growth may slow as it branches into other kinds of chips. That's because innovation in these higher-tier markets is driven by design. And so far, says Borrus of BRIE, "the Koreans have demonstrated no particular ability in creative design." That doesn't mean they won't, he adds. But even the Japanese have yet to make it over this hurdle. For now, Samsung has a cushion: Even if DRAM demand begins to wane with the 64- and 256-megabit generations, the company can count on about five more good years to scramble for a new beginning. Considering what it has achieved in the past decade, a half-decade could be long enough.

By Laxmi Nakarmi in Seoul and Neil Gross in Tokyo

SAMSUNG'S DRAMATIC RISE IN MEMORY CHIPS

Toshiba passed NEC in 1987 to become the world's No. 1 maker of DRAMs, only to be dethroned by Samsung last year



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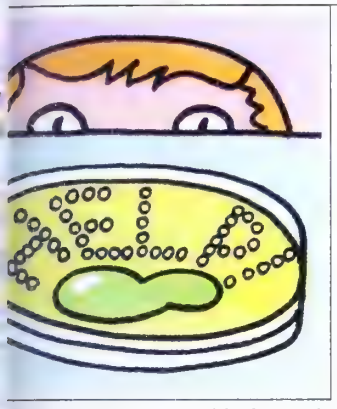
evelopments to Watch

) BY RUTH COXETER

TING FOR TOXINS: SINGLE CELLS ULD REPLACE LAB ANIMALS



An electronic surveillance system developed by researchers at Rensselaer Polytechnic Institute in Troy, N.Y., could save scientists hours of bending over microscopes. Without human supervision, the system gauges the way animal cells react to toxins by tracking how they move and change shape. Animal cells are grown in a nutrient-filled plastic etched with tiny gold electrodes. The cells grow to cover electrodes, and as the cells move, changes in electrical rence show up as waves on a computer screen. By looking e height and pattern of the recorded waves, scientists can itor cells' reactions to toxins.

ventors Ivar Giaever and Charles Keese, both RPI profes- have formed a company called Applied Biophysics Inc. to nercialize the technology. Giaever, who won the 1973 No- rize in physics, says the behavior of animal cells provides od idea of how animals or humans would react to a toxin. opes the device will offer an alternative to the use of live als in testing of cosmetics, detergents, and drugs.

TRASOUND SMOOTHES THE WAY R RECYCLING TIRES

vraam I. Isayev wants to rid the landscape of used tires with an ultrasound make-over. Instead of breaking down with harsh solvents, the University of Akron professor s them of nylon cord and steel belts and then treats with high-pitched sound waves, heat, and pressure to ly break their strong chemical bonds. Once the rubber is , it can be shaped into other products or mixed with rubber. Gaskets, hoses, and belts made of expensive, er-like compounds—which cost $10 to $20 a pound to buy —also can be recycled. Isayev predicts his method will be per in the long run because it doesn't use solvents, which expensive to handle and dispose of.

ayev says the system's capacity, now five pounds of rub- an hour, will be cranked up to 100 within a year—enough andle small items, such as gaskets. Recycling tires will re- e a capacity of 5,000 or more pounds an hour, which will longer to develop. National Feedscrew & Machining In- ries in Massillon, Ohio, is funding the research and has a se to produce the equipment and recycle tires.

RING UP NEW PRODUCTS FROM D ROCKET FUEL

ropellants from dismantled weapons are usually burned or buried. Borrowing a process from Los Alamos National oratory, Plasma Technology Inc. in nearby Santa Fe, M., not only breaks down the propellants in an environmen- friendly way but turns the components into useful gases. propellant gases are placed into a gas plasma that's heated to 800C to 1,600C, which breaks the propellants down into their primary components. Those components can then be reformed into useful gases that can be burned for electricity or used as a feedstock for methanol or fertilizer.

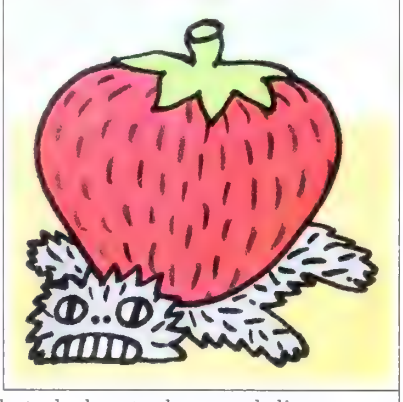
Plasma Technology will open its first commercial operation in Ukraine next year. The company, which plans to license the process, puts the worldwide reclamation value of propellant components at up to $5 billion. "Incineration is going to take a lot of heat in the next few years," contends Plasma Tech President and Chief Executive John F. Serino Jr., a retired IBM corporate director of environmental programs. He adds: "We offer an alternative with friendlier emissions, and we end up with a product."

SOFTWARE THAT KEEPS YOUR CAR BATTERY FROM RUNNING DOWN

You're stuck on the road and you're dying for a cool blast of AC. But think twice: Too much energy demand on a car that is idling or in stop-and-go traffic can run down the battery and leave you stranded. Drivers reluctant to give up creature comforts may some day turn to an "energy load management controller" developed at Case Western Reserve University in cooperation with Ford Motor Co. Engineering professor Kenneth Loparo and doctoral student Richard Kaplan devised software for the car's on-board computer that makes sure the battery is never overtaxed. Say you flick the air conditioner on. First, the system sees what devices are already on, how fast the car is going, and the battery's state of charge. Then it schedules the AC to come on when enough energy is available. The software can be set for different priorities—driver comfort, fuel economy, or high performance.

Loparo says energy management is becoming more important as gadgets such as cellular phones and fax machines are put into cars. He adds that Ford is deciding whether there's enough customer interest "and how people will react if, for example, their air conditioning doesn't come on right away."

PRODUCE GETS A FRESH LEASE ON LIFE ON THE VINE



When mold creeps across strawberries, customers flee. Scientists at Cornell University's Agricultural Experiment Station in Geneva, N.Y., are fighting back with mold-eating enzymes derived from a soil-based fungus called trichoderma. This fungus releases enzymes that digest chitin, the sugar chains that strengthen the mold's cell walls, causing the cells to leak cytoplasm and die.

"Since humans and animals don't have chitin, the enzyme may be a benign alternative to chemical fungicides," says lab manager Christopher Hayes. As for bugs, which do have chitin, he says any that are munching on crops deserve to die. In tests, mold-fighting trichoderma has been used to coat seeds and been placed in pellet form in furrows among such crops as cotton, cucumbers, eggplant, corn, and tobacco. Hayes says he expects approval soon from the Food & Drug Administration to put trichoderma on plant leaves and fruit.

HOW MUCH ARE YOU REALLY EARNING ON YOUR MUTUAL FUNDS?

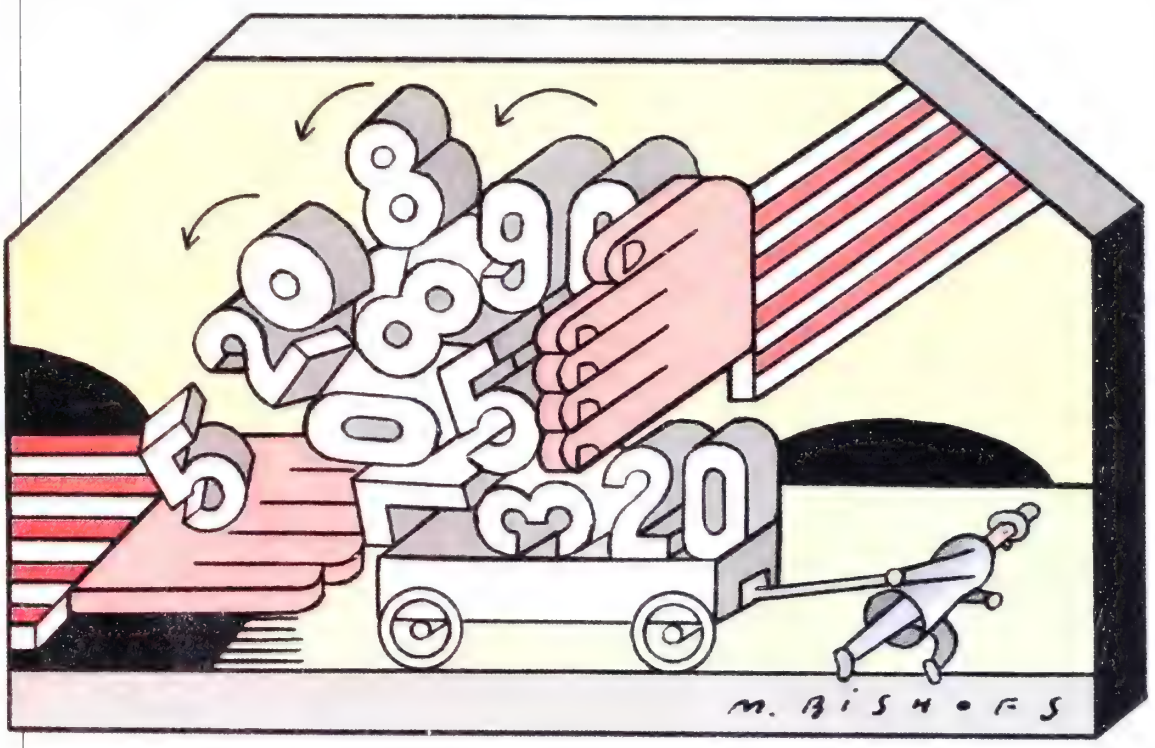
Many of the glossiest funds lose a lot of their luster when taxes are factored in

If you have owned mutual funds over the past decade, you've probably chalked up what may look like some pretty fat gains. After all, the average annual return for the past 10 years comes to a nifty 11.8%. But before you pat yourself on the back for being such a savvy investor, take the time to examine a critical element in evaluating your fund's investment performance: taxes.

Most people—including the entire mutual-fund industry—judge a fund before considering the taxes shareholders will have to pay, which could be a big mistake in these days of higher income-tax rates. The difference between pretax and aftertax returns can be startling, depending how much the fund relies on dividends and interest and how frequently the fund trades its stocks.

If you're in the highest tax bracket, returns on your equity fund could be about 25% to 30% lower than you think—and that's just taking federal income taxes into account. Roll in state and local bites, and those returns may look even less enticing. Moreover, ranking funds by their aftertax returns can send leaders to the back of the pack and turn laggards into stars.

At a time when investors are pouring money into mutual funds in record sums—$69.8 billion in equity funds and $73.5 billion in bond funds through July of this year alone—there isn't much evidence that they're taking taxes into account. "I can't tell that investor behavior is changing much because of higher taxes," says Neal Litvack, an executive vice-president of Fidelity Investments. "Maybe it hasn't sunk in yet."



DRAMATIC SHIFTS. Indeed, if investors focused on taxes, says Litvack, they would invest more in tax-exempt municipal-bond funds and less in taxable bond funds. In stocks, he adds, they're choosing conservative funds that generate dividend and interest income—taxable at rates as high as 39.6%—rather than more growth-oriented funds that aim for long-term capital gains, on which the tax is capped at 28%.

But if investors haven't yet caught on to the potential impact of taxes on their investments, you can't blame them. There's little information to go on. Most fund-ranking systems use pretax returns, since they are the only numbers the funds report. And the growing number of fund investors with individual retirement and other pension-type accounts, such as the Fidelity Retirement Growth Fund, which caters to pension accounts, need not worry about taxes. They're not paying taxes anyway. But most money in funds is taxable, and analysts and academics are starting to look at aftertax returns. What they're finding puts funds in a new light.

Stanford University economist James M. Dickson and John B. Shoven studied pre- and aftertax returns of 62 mutual funds from 1963 through 1992, and they found some dramatic shifts. The Franklin Growth Fund, for instance, was in the bottom 20% of the list based on pretax returns. But when Dickson and Shoven adjusted the return for the taxes that the highest-income shareholders would have paid, the fund's relative ranking jumped into the top 40%. Likewise, the economists found several funds that dropped significantly in the list after taxes. Dickson does not advocate choosing funds solely by past performance, but, he says, "investors need more information about tax effects to make informed decisions."

ndeed, Morningstar Inc., which pro-
s the data for BUSINESS WEEK's Mu-
Fund Scoreboard, has started re-
ing aftertax returns on funds. Be
warned that your aftertax returns
differ from Morningstar's, because
ssumes the shareholder is in the
est U. S. income-tax bracket in effect
1 year. Nor does Morningstar take
e and local taxes into account.
o see how taxes can affect fund re-
s, consult the table at right. Look at
lity Magellan Fund and the column
ving 10-year average annual returns.
t figure includes the fund's apprecia-
and assumes the investor reinvested
dividends and capital gains—as most
Magellan's 10-year average annual
l return for the period ending Aug.
was 18.5%. But after taxes, that's
15.4%. Roughly 17% of the return
eaten away in taxes. If you ranked
e 50 funds by 10-year pretax re-
ıs, Magellan would be No. 2. After
s, it's No. 3.
lot too great a difference. But consid-
Vanguard/Windsor Fund: With a
% average annual pretax return, it's
16 of the 50 for the 10 years. But af-
taxes, its position changes markedly.
h an 11.3% return, Windsor drops
0th place. In sharp contrast, Van-
rd Index 500 Trust, with 14.6%, is
27 pretax. But with a 12.4% aftertax
ırn, the fund jumps to No. 19.

ING PRETTY. Aftertax rankings dif-
from traditional rankings because of
way tax laws affect mutual funds.
cally, mutual funds make money two
s: from interest or dividends paid
he securities it owns, and investing
ecurities that go up in price. The
makes mutual funds distribute their
income and proceeds from profit-
security sales, or "realized" capital
ıs, and they must do so before the
of the year in which profits were
ıed. Funds can also dump their los-
and use those losses to offset some
hose gains.
low much capital gains the fund gen-
es depends, of course, on the overall
e of the stock market, but also on
frequently the fund trades. "Buy-
hold" funds, or those with "low turn-
r," typically let their profits ride and
le infrequently. They generally have
er capital-gains distributions and
ıer aftertax returns than a fund that
les more frequently. That, says John
Bogle, chairman of the Vanguard
up, helps to explain why the Van-
rd Index 500 Trust—which doesn't
le its portfolio—beat the more ac-
ly managed Windsor Fund after tax-
The other reason: Windsor often
s out-of-favor stocks with higher-
n-average dividends and so gener-
s more income than the index fund.
ndeed, the components of a fund's

THE TAX TEST: HOW DOES YOUR FUND STACK UP?

The table shows pretax and aftertax average annual returns for the 50 largest equity mutual funds with at least 10-year track records. The pretax return is appreciation plus reinvestment of dividends and capital gains distributions. To determine the aftertax return, Morningstar Inc. "taxed" each fund's dividends and capital gains distributions using the maximum federal income and capital-gains tax rates for each appropriate year. Short-term and long-term capital gains are taxed at the same rate. The column "estimated tax liability" shows the percentage of a fund's assets that might be paid out as taxable gains were the fund to liquidate all its holdings today.

Fund	Three-year avg. annual return*		Five-year avg. annual return*		Ten-year avg. annual return*		Est. tax liab.	Net assets
	Pretax	Aftertax	Pretax	Aftertax	Pretax	Aftertax		(bill.)
FIDELITY MAGELLAN	24.2%	20.8%	20.8%	17.7%	18.5%	15.5%	21.9%	$29.8
INVESTMENT COMPANY OF AMERICA	16.2	14.5	15.3	12.9	15.3	12.5	23.1	18.5
WASHINGTON MUTUAL INVESTORS	18.0	16.3	14.9	13.0	15.3	12.7	22.2	12.3
VANGUARD/WINDSOR	20.2	17.1	13.2	9.9	15.6	11.3	14.5	10.6
INCOME FUND OF AMERICA	17.5	14.9	13.9	11.2	14.2	10.5	10.3	9.5
JANUS	19.9	18.3	21.0	18.3	15.0	11.7	11.2	8.7
FIDELITY PURITAN	19.9	17.4	14.8	12.0	15.0	11.2	17.5	8.3
VANGUARD INDEX 500	16.2	15.0	15.6	14.1	14.6	12.4	13.0	7.9
TWENTIETH CENTURY ULTRA INVESTORS	36.8	36.7	29.7	28.6	15.7	13.9	30.1	7.5
VANGUARD/WELLINGTON	15.9	14.0	13.3	10.8	13.9	10.7	16.0	7.4
FIDELITY EQUITY-INCOME	19.8	17.9	13.3	11.0	13.6	9.9	17.9	6.3
DEAN WITTER DIVIDEND GROWTH	17.4	16.3	15.6	14.0	14.9	13.0	25.7	6.2
VANGUARD/WELLESLEY INCOME	17.4	14.8	14.7	12.0	14.6	10.8	10.4	5.4
AMERICAN MUTUAL	15.8	13.4	13.8	11.1	14.1	11.1	26.6	5.3
FIDELITY CONTRAFUND	32.0	30.4	27.5	25.8	18.1	15.8	14.4	5.2
AIM WEINGARTEN	14.8	14.3	17.1	16.3	14.5	12.5	12.0	5.2
TWENTIETH CENTURY SELECT INVESTORS	13.3	11.5	16.1	14.5	12.9	10.9	27.6	5.1
GROWTH FUND OF AMERICA	19.5	17.8	16.5	14.3	14.2	12.0	24.7	5.0
PUTNAM FUND FOR GROWTH & INCOME A	16.1	13.3	14.9	11.9	15.0	10.8	11.7	5.0
TWENTIETH CENTURY GROWTH INVESTORS	18.1	17.1	19.6	18.5	14.1	11.8	26.9	4.7
PRUDENTIAL UTILITY B	18.1	16.1	16.4	14.0	19.1	15.6	22.8	4.7
PIONEER II	15.2	13.1	12.2	9.4	11.6	8.7	NA	4.4
TEMPLETON WORLD	15.1	11.5	12.1	9.1	13.6	10.3	26.2	4.4
NEW PERSPECTIVE	13.7	12.2	14.5	12.2	15.2	12.3	7.4	4.3
AFFILIATED	16.5	13.6	13.5	10.6	13.8	9.9	22.6	4.2
FRANKLIN INCOME	21.0	17.6	14.6	10.9	14.1	9.6	12.4	3.8
TEMPLETON GROWTH	16.1	12.8	14.5	11.6	14.6	12.1	25.5	3.8
INVESCO INDUSTRIAL INCOME	19.5	17.1	18.2	15.3	16.5	12.4	2.0	3.6
FRANKLIN UTILITIES	20.1	17.9	15.7	13.4	15.0	11.9	17.0	3.6
IDS NEW DIMENSIONS	21.6	18.9	20.8	18.4	16.2	12.7	23.5	3.4
MUTUAL SHARES	18.6	16.4	13.3	10.3	16.2	12.9	25.8	3.4
T. ROWE PRICE INTERNATIONAL STOCK	9.4	7.7	12.5	10.1	17.5	14.3	12.2	3.2
DREYFUS	11.9	10.1	11.5	9.4	11.7	8.0	19.8	3.1
NICHOLAS	19.3	18.0	14.8	13.4	13.7	11.8	28.1	3.1
AMCAP	18.0	15.7	15.0	12.3	12.6	10.2	NA	3.1
PHOENIX BALANCED	14.2	11.5	14.7	12.3	14.8	11.1	5.8	3.0
FIDELITY DESTINY I	26.0	22.3	19.5	16.1	17.2	13.2	28.8	3.0
UNITED INCOME	17.7	16.0	15.7	13.3	16.7	13.5	32.0	2.9
FIDELITY RETIREMENT GROWTH	20.9	18.0	17.3	14.9	15.8	12.6	18.1	2.8
IDS MUTUAL	17.2	14.0	13.3	9.9	14.3	10.0	12.9	2.8
PHOENIX GROWTH	12.6	10.0	14.1	11.9	14.7	11.5	4.3	2.6
PUTNAM VOYAGER A	25.8	23.5	21.0	18.7	16.1	13.5	25.6	2.6
AIM CONSTELLATION	30.4	30.3	24.5	22.6	16.1	13.0	19.3	2.5
AMERICAN CAPITAL PACE A	14.6	11.9	13.9	11.2	11.2	8.6	NA	2.5
TEMPLETON FOREIGN	10.3	7.9	15.4	12.7	17.4	15.0	13.3	2.4
FIDELITY GROWTH COMPANY	23.6	22.3	22.8	21.1	16.2	14.4	21.8	2.3
MERRILL LYNCH CAPITAL A	15.2	12.9	14.0	11.5	14.5	11.3	NA	2.2
MERRILL LYNCH BASIC VALUE A	18.1	16.0	12.7	10.6	14.6	11.8	30.3	2.1
PIONEER	15.6	12.4	12.5	9.5	11.7	8.5	63.4	2.0
VANGUARD U.S. GROWTH	14.1	13.6	17.0	16.5	12.2	9.3	7.0	2.0

*Appreciation plus reinvestment of dividends and capital gains for periods ending Aug. 31, 1993 NA=Not available

DATA: MORNINGSTAR INC.

return are as important as the return itself. Conservatively run funds, such as income funds, equity-income funds, and balanced funds, make interest and dividends a priority, and these are taxed at the shareholders' top rate. That explains why the 10-year aftertax returns on such funds as Income Fund of America, Fidelity Puritan, and Fidelity Equity-Income are roughly one-quarter less than their pretax returns.

Now look at Twentieth Century Ultra Investors, which invests in fast-growing companies that rarely pay dividends. The fund has distributed only 21¢ in income over the past 10 years. During the same time, it tended to hold on to its winners and thus minimized its capital-gains distributions. As a result, Ultra's aftertax return of 14% was 89% of its pretax return, 15.7%. For the past three years, its pretax and aftertax returns are virtually the same.

LESS IS MORE. Ron Neville, chief financial officer at Twentieth Century Mutual Funds, says the Ultra fund isn't deliberately trying to avoid capital-gains distributions. That's just the outcome of its investment style, which focuses on companies with accelerating earnings. "If a stock disappoints us, we sell it and don't hang on," he says. So the fund usually has realized losses that can be used to shelter gains.

While comparing pretax and aftertax returns provides insight into a fund's past, another calculation can be a window into the future: "estimated tax liability." This figure, which Morningstar now reports as well, sizes up unrealized capital gains in a portfolio and expresses them as a percentage of fund assets.

In theory, at least, the more unrealized gains in a fund, the greater the chance that they will be realized. That's O. K. for longtime investors who participated in the appreciation of those stocks. But what happens if an investor buys a fund with a large tax liability, and the fund sells those profitable stocks tomorrow? The new investor who paid top dollar for those stocks when investing in the fund, will be hit with the same taxable distributions as the investor who was in for years.

Funds with big tax liabilities—or "embedded gains"—can surprise investors, especially if the portfolio manager decides to start taking profits because he or she detects a change in the market or wants to change the fund's strategy.

But many funds carry unrealized gains on their books for years, if not decades. The Pioneer Fund, for instance, has a huge 63.4% of its portfolio in unrealized gains. Pioneer also is the quintessential buy-and-hold fund: Its 600,000 shares of Greif Brothers Corp., a container manufacturer, were acquired 40 years ago for $521,000 and now are worth nearly $24 million. Nor is Pioneer quick to take profits on the rest of its portfolio. Its average turnover is 15%, vs. 80% for the average equity fund. So it is unlikely that the fund will start dumping stock and incurring capital-gains taxes for its shareholders.

GOLD DIGGERS. Perhaps even more interesting—and potentially more profitable for investors—is the concept of "embedded losses." These are the negative tax liabilities, or tax-loss carryforwards, that some funds have on their books if they have made poor investments. They build up because mutual funds can't distribute capital losses to shareholders. Funds can, however, hold on to them for eight years and use them to offset gains.

Not surprisingly, the funds with the largest negative liabilities are gold funds, which despite their shining 1993 performances have been big losers for the decade. Even if Lexington Strategic Investments, the year's top-performing fund, keeps up its torrid, 118% year-to-date return, its shareholders won't have to pay taxes on its capital gains for years. It has tax losses amounting to more than twice the assets in the fund. If you're convinced a beaten-up type fund is about to rebound, buying one with tax-loss carryforwards can be a smart move.

Of course, in choosing equity mutual funds, taxes should not be the primary consideration. Investors should select the funds that best fit their financial goals and ability to take risks. Still, with tax rates on the rise, factoring in the impact of taxes is a must for the sophisticated investor.

By Jeffrey M. Laderman in New

LOOKING AHEAD TO FUND TAXES

The average equity fund has an estimated tax liability of 12.9%. That means if the fund were liquidated, roughly 13¢ out of every dollar would be capital gains on which the shareholder would have to pay taxes. Investing in a fund that already has large unrealized gains raises the potential that the investor could be hit with a taxable distribution. A negative tax liability means that the fund has suffered large losses. The good news is that the fund can use those losses to shelter future gains.

'HIGH LIABILITY' FUNDS

Fund	Est. tax liability
PIONEER	63.4%
FIDELITY JAPAN	49.6
METLIFE-STATE STREET EQTY. INVSTMT. A	49.1
STATE BOND COMMON STOCK	43.9
ACORN	43.6
VAN ECK INTERNATIONAL INVESTORS	43.1
PAINEWEBBER REGIONAL FINANCIAL A	42.1
ELFUN TRUSTS	41.8
SENTINEL COMMON STOCK	41.6
NEW ECONOMY	41.5
AMERICAN CAPITAL EMERGING GROWTH A	41.5
STATE BOND PROGRESS	41.2
SEQUOIA	41.1
NATIONAL TOTAL RETURN	40.7
SCHRODER U.S. EQUITY	40.4
T. ROWE PRICE NEW HORIZONS	40.2
FORTIS ADVANTAGE CAP. APPRECIATION	39.8
FIDELITY SELECT HOME FINANCE	39.6
PFAMCO SMALL CAP GROWTH	39.6
NEW YORK VENTURE	38.9
PBHG GROWTH	38.4
VANGUARD SPEC. GOLD/PREC. METALS	38.4
SMITH BARNEY SHEARSON GR. & OPP. B	38.4
FLAG INVESTORS TELEPHONE INCOME	37.4
MERRILL LYNCH BASIC VALUE B	37.3
SELIGMAN COMM./INFORMATION A	37.1
TWENTIETH CENTURY GIFTRUST	37.1
SPECIAL PORTFOLIOS STOCK	36.8
FORTIS GROWTH	36.4
FPA CAPITAL	36.1

FUNDS WITH LEAST TAX LIABILITY

Fund	Est. tax liabi
LEXINGTON STRATEGIC INVESTMENTS	–265
FLAGSHIP UTILITY INCOME A	–167
MONITREND SUMMATION	–127
BOSTON CO. INTERNATIONAL RETAIL	–117
CAPSTONE NIKKO JAPAN	–107
PUTNAM CORPORATE ASSET	–97
UNITED SERVICES GOLD SHARES	–60
COLONIAL STRATEGIC INCOME A	–54
UNITED GOLD & GOVERNMENT	–53
PRUDENTIAL GLOBAL GENESIS B	–47
PUTNAM STRATEGIC INCOME	–46
UNITED SERVICES EUROPEAN INCOME	–43
GAM EUROPE	–34
REYNOLDS BLUE CHIP GROWTH	–33
EXCEL VALUE	–31
CENTURION GROWTH	–28
ALLIANCE NEW EUROPE A	–26
JOHN HANCOCK FREEDOM ENVIR. A	–25
UNITED SERVICES GROWTH	–22
USAA INVESTMENT GOLD	–21
MONITREND GOLD	–20
MERRILL LYNCH NATURAL RESOURCES B	–18
G.T. EUROPE GROWTH A	–17
RODNEY SQUARE INTERNATIONAL EQUITY	–16
IDS PRECIOUS METALS	–15
UNITED SERVICES GLOBAL RESOURCES	–15
INVESCO STRATEGIC ENVIR. SVCS.	–15
FAIRMONT	–14
YACKTMAN	–13
DFA CONTINENTAL SMALL COMPANY	–12

DATA: MORNINGSTAR INC.

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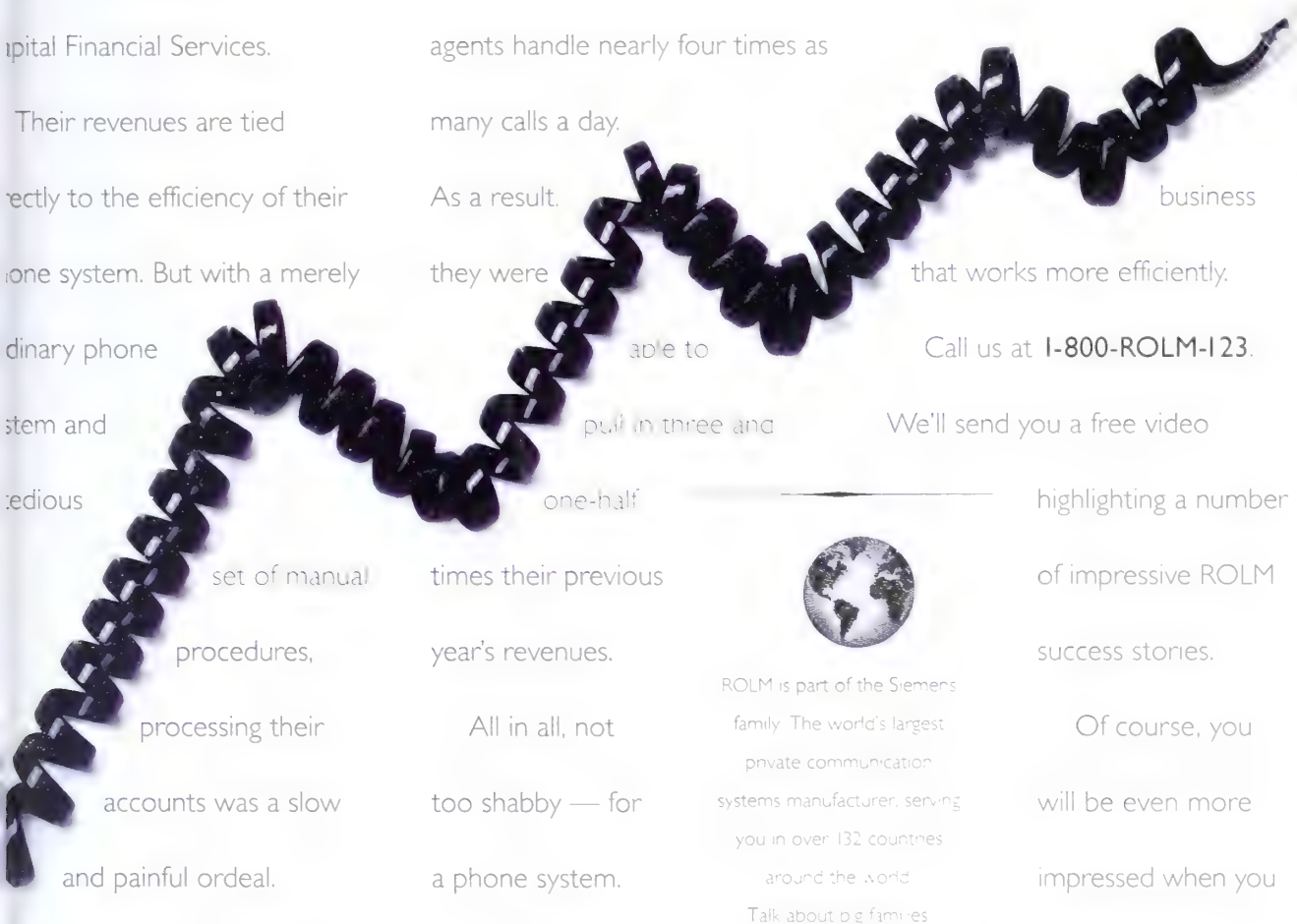

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INVESTIGATIONS

STOCK-PICKING MARVEL —OR JUST A SLICK OPERATOR?

Rafi Khan has attracted zealous supporters—and several lawsuits

To hear his small army of fans tell it, Rafi M. Khan is more than just a Beverly Hills stockbroker—he is nothing short of a stock market wizard. The son of a Pakistani diplomat, the 43-year-old Khan is quick to tell visitors of his meteoric rise from his days as a pencil-pushing insurance actuary to a high-flying stock-picker. His client list, he has claimed, includes such illustrious names as Salomon Brothers and the Fidelity, Putnam, and Wellington fund groups. And to his satisfied customers, Khan is a genius at picking undervalued stocks. "No one's made me more money than Rafi has," marvels Philip J. Dubuque, a vice-president with Chestnut Hill Management Corp. in Boston.

But his detractors contend that there is another side to Rafi Khan—a dark side. They charge that Khan is nothing more than a slick operative who manipulates markets and trades on inside information. In one of several legal skirmishes involving Khan, U. S. District Court Judge John E. Sprizzo found that Khan "committed willful perjury in this court under oath."

Working from a cramped office on Wilshire Boulevard, Khan waves off these charges, including Sprizzo's. "Why the man had such a hatred for me I'll never figure out," he says. As evidence that Sprizzo's statement has little weight, he pulls out a notebook of brokers he says call him regularly to sample his stock-picking acumen. "They look to me for guidance," says Khan, nonchalantly.

UNUSUAL SWAY. Khan is the most flamboyant of a new breed of swashbuckling stock promoters who are flourishing in the buoyant stock market. He delights in skewering short-sellers who often attack his stock picks. For instance, he is currently embroiled in a series of bitter lawsuits with shorts over Future Communications Inc., a Texas broadcasting and cable company whose stock soared after Khan began boosting it. But unlike most other promoters, he often turns with a vengeance on companies he has promoted when they disappoint him. They often return the favor. He was recently sued by ICN Pharmaceuticals Inc., one of his promotions, after he mounted a stalled takeover coup.

The lawsuits illustrate the unusual sway Khan often holds over some of the thinly traded issues he follows. Khan has been one of Future's biggest boosters. In June, Khan, who owns shares in Future, issued a highly favorable report that helped push its stock to as high as 27 from just 6⅝. He maintains that the company is attractive because new cable-television rules will require more cable systems to carry its family-oriented programming.

In the Future suit, shorts allege that Khan and his current employer, Reynolds Kendrick Stratton Inc., manipulated the stock of the Dallas company by placing 2.6 million of its 3.4 mi shares with clients and family mem Shorts claim the maneuver requ them to pay for 193,676 shares, w they owed clients of RKS, at an artifi ly high price of 36 a share. At the the stock was not trading and the recent price had been a mere 27⅝. h denies the shorts' allegations and he has no control over his clients' ings. He maintains that massive sho in the stock created a situation w shorts were unable to cover their tions. "Did anyone ask them to it?" Khan asks with a laugh.

TONKA FRACAS. Khan can hardly off the suits completely. He conc that he has been interviewed by Securities & Exchange Commission inv gator about the Future transac Khan also concedes that the SE been asking questions about tradin tivity at the now-de Chelsea Street Securities a suburban Dallas firm was a market maker number of stocks, inclu Future Communications. nolds Kendrick Str opened a Dallas offic June, hiring most of Ch Street's brokers.

Khan's most tenacious versaries, though, are companies in which he taken positions. In 198 ter selling shares in toym Tonka Corp. to his institu al clients and then seein stock sag, Khan filed against the company, ci ing its executives with leading investors in a p offering document about company's revenue gr Khan says that suit was to protect his clients wh bought Tonka stock. Ka who owned stock in the pany himself, event shared in the $5 million Tonka paid to settle the according to Karl L. bronne, a lawyer for shareholders. Khan has no apol about going after companies tha once promoted. "My responsibility my clients who pay me commissi he says.

ICN Pharmaceuticals found that earlier this year. The Costa Mesa (C drugmaker filed suit against Kha April, charging that he had obtaine side information that convinced hi try to take control of the company. suit also said Khan failed to dis that he had formed a group with a ber of disgruntled institutions tha

KHAN LIKES TO CONFRONT SHORT-SELLERS WHO ATTACK HIS PICKS

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tended to depose management. Khan, who had accompanied management on a series of road shows in early 1993 for the stock offering of an ICN subsidiary, told the SEC in April that he would seek to replace the board of ICN Pharmaceuticals with his own slate. In a letter to the SEC the following month, Khan charged that ICN Chairman Milan Panic was grossly overpaid and that ICN board members were "spineless."

"FRAUDULENT CONDUCT." The ICN fight has been bruising for Khan. The controversy led to his resignation in March from H. J. Meyers & Co., where he had been a broker for three years. Then in May, in issuing a preliminary injunction that barred Khan from trying to depose ICN management, U. S. District Court Judge Sprizzo found that Khan's testimony at times was "willfully false" and that he had traded on inside information. Khan says the charges are untrue. An appeals court reversed the injunction but not the finding of perjury. ICN is seeking to have the injunction reinstated and is pressing ahead with its suit against Khan, which seeks damages of $25 million. "There is a pattern of fraudulent conduct and violating U. S. securities laws," alleges Arnold I. Burns, outside counsel for ICN, of Khan's dealings with his client, a charge Khan denies.

Khan received notoriety for making allegations of just that kind against another company in which he owned shares, AmBase Corp. In 1989, he wrote SEC Chairman Richard C. Breeden, alleging possible securities-law violations at the troubled financial-services firm. Eventually, as complaints from institutional investors mounted, the company's management was replaced.

Rafi Khan's history is almost as colorful as his most recent exploits. Born in Pakistan, he was raised in London and graduated from University College there with a degree in mathematics. Finding work as an actuary too dull, he joined Lonhro PLC, the London-based conglomerate, in 1983. He left in 1985, and six months later capitalized on his stint there by issuing a massive report on the company, which he was able to sell to a London investment firm for a hefty sum. Khan says that the report was instrumental in convincing investors such as Michael F. Price, manager of the Mutual Series Fund, and Martin D. Sass, a New York institutional investor, to purchase Lonhro shares. Price could not be reached for comment. Sass says he doesn't recall the report or Khan.

It wasn't until he arrived in the U. S. that Khan's career really took off. After an unsuccessful stint in Dallas as chairman of a water-purification company, Khan decided to become a broker. "I needed to make money," he says. Taking a job with the predecessor to Wedbush Morgan Securities in early 1988, Khan relocated with his wife and three children to Los Angeles. Working the phones relentlessly, he boasts that within one year he went from having no client base to being one of the firm's largest producers. "He's the most aggressive person I've ever met on Wall Street," says one fund manager who was once wooed by Khan.

His pitch was simple. He would fax research reports, rarely longer than a few pages and always in oversize type to catch the eye of a busy fund manager. Early on, he would focus on stocks that he expected to nose-dive and would hustle out faxes ahead of any possible negative news. "Even if I didn't ge[t] commission," he says, "I figured th[ey] remember that this guy was no [...] But mostly he focused on the up[side]. He promised to deliver stocks [that] would not only appreciate but w[ould] double or triple in price.

His tactics have attracted many[fol]lowers. Putnam Cos. and Fidelity I[n]vestments, whom he has identifie[d] clients in the ICN court proceedings[,] cline to comment about Khan. Bu[t] vestment managers at such firm[s] Glickenhaus & Co. and Chestnut [M]anagement praise Khan's abilit[y] find controversial but underva[lue] stocks. He made a [well-]timed pick of McDo[nnell] Douglas and was an [early] backer of insur[ance] company Conseco. T[oday]s days, Khan is hig[hly] mainframe comp[uter] maker Encore Com[puter] er Corp., whose [stock] has gone to $4, fro[m $2] in June.

INFLATED PRICES? [Khan's] recommendations [have] have attracted short[-sell]ers who believe the r[umors] es of his picks ten[d to] be inflated. Often, [he] have been right. In [1991] was a booster of v[oice] less data transmis[sion] company Spectrum [In]formation Technolo[gies] Inc. last spring, jus[t be]fore the stock triple[d on] news of a contract [with] American Telepho[ne &] Telegraph Co. The [stock] collapsed after ques[tions] about the value of [the] contract, although [Khan] says he advised hi[s cli]ents before the slid[e to] get out.

Khan also re[com]mended Kentucky [Cen]tral Life Insurance Co. in early [1993] before it was submarined by problem[s] its real estate loan portfolio. "If I [see] that Rafi is involved, I take a look a[t the] stock to short it," says Jonathan M[iller], man of Merriman Capital Manage[ment] who shorted Kentucky Central.

Whether Khan is a stock picker extraordinaire, dangerous malefactor or merely a crafty but overhyped action-getter, there's no question that increasing numbers of people seem to be watching his every move. But for Khan the attention could well become more and more unwelcome.

By Amy Barrett in Beverly Hills, Calif., with Julia Flynn in London

THE EXPLOITS OF RAFI KHAN

TONKA

DECEMBER, 1989 Khan files a class action on behalf of shareholders against Tonka charging the company misled shareholders about its future revenue growth. Tonka settles for about $5 million, with Khan receiving an undisclosed portion of the settlement.

AMBASE

DECEMBER, 1989 Khan writes then-SEC Chairman Richard C. Breeden, alleging securities-law violations at this troubled financial services company. Under pressure from other institutional investors, new management assumes control the following spring.

ICN PHARMACEUTICALS

APRIL, 1993 Khan files a notice with the Securities & Exchange Commission saying he will try to replace ICN's board of directors with his own slate. ICN sues Khan, seeking $25 million in damages.

FUTURE COMMUNICATIONS

SEPTEMBER, 1993 Khan and his firm, Reynolds Kendrick Stratton, force short-sellers to buy 193,676 shares to cover their positions in this broadcast and cable company after NASDAQ suspends trading in the stock. Short-sellers, claiming they had to pay an artificially high price, sue Khan and RKS, alleging market manipulation.

DATA BUSINESS WEEK

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BY GENE G. MARCIAL

THE ACTION MAY NOT BE OVER AT METROMEDIA...

Billionaire John Kluge may have made a triple play with his wholly owned Metromedia Co. On Sept. 14, shareholders of Resurgens Communications Group, an Atlanta-based provider of national long-distance telephone services, and LDDS Communications in Jackson, Miss., another telephone company, approved their merger into Kluge's company. But that's not the big story. A larger play by Kluge is already in the offing as a result of the deal.

Here's the scoop: Even before the merger was completed, several major telephone and media companies were talking behind the scenes with Kluge to acquire the new company, now the nation's fourth-largest telecommunications enterprise, with revenues of about $1.8 billion.

A New York investment manager who has been buying Resurgens shares believes the president and CEO of a major West Coast cable-TV giant will soon make a bid. Kluge owns 24% of LDDS Metromedia, the new company, and he controls more than 50% of the vote through other big stakeholders with whom he has had many business dealings. They include Resurgens Chairman Michael Marshall and President and CEO Jack Phillips, who each own more than 5%.

ALLTEL, a telecommunications company that Kluge has done business with, also holds a 24% stake. LDDS President Bernard Ebbers, who becomes the president and chief executive officer of the new company, owns an additional 5%.

LIVES FOR DEALS. Ebbers acknowledged at the Sept. 14 LDDS shareholders meeting that a deal may be in the works. Asked about buying into the cable business, Ebbers said that a "large cable operator may want to buy LDDS Metromedia, instead."

"I wouldn't be surprised if Kluge makes a deal to sell this new company," says Craig Ellis, an analyst at Wheat First Securities in Richmond, Va. "Kluge lives to do deals," he adds. "This three-way merger has created a new telecommunications giant with tremendous earnings potential."

Ellis sees the earnings of the new LDDS Metromedia rising to $1.70 a share this year and then jumping to $2.35 to $2.45 next year.

CEO KLUGE: WILL HE SELL THE NEW GIANT?

On Sept. 15, the first day of trading, LDDS Metromedia closed at 46½ a share. Ellis puts the value of the company's underlying assets at $50 to $70. One big investor estimates that in a buyout, the new company should fetch a cool $72 a share.

...AND KLUGE MAY DO A 'SCREEN' PLAY

John Kluge also wants to make a big hit in the movies. So he is zeroing in on Orion Pictures, which has just emerged from Chapter 11. To many analysts, the motion-picture company might as well be dead. "I don't think Orion will ever come back to become a major player in the film industry," says one analyst at a large investment firm.

But Kluge appears to believe otherwise. He recently raised his stake in Orion to more than 56% through share purchases in the open market. That pushed up the company's stock price from 2¼ on June 14 to 8 on Sept. 15. Kluge has also personally guaranteed the film company's senior debt of $300 million. A Metromedia spokeswoman declined comment.

Why? "He understands the value of Orion's film library and may either buy Orion or become the catalyst for raising its stock's price," figures Steven Abernathy of New York investment firm Cowen & Co "Few investors understand how to build a company and recognize value better than Kluge," he adds.

Abernathy feels that Orion will soon attract a buyer. As cable-televis[ion] companies open more channels, [he] says, they are scouting for compar[ies] with film libraries. He notes that ma[jor] film libraries have become scarce.

The analyst puts Orion's book va[lue] at $8.30 a share. That, plus a recurr[ing] cash flow of more than $2 a sha[re] says Abernathy, puts the curr[ent] worth of Orion at $16. He figures [its] valuation will rise significantly o[ver] the next two years as debt is paid [off]. Orion is now operating under [the] guidelines of the Federal Bankrup[tcy] Court, which stipulates that all re[ve]nues go toward paying off debt. [Also] Orion is allowed to lease or rent out [its] library of 750 films, which include s[uch] goodies as *Dances With Wolves*, *Silence of the Lambs*, and *The Adde[ms] Family*.

AN INSURER'S DIVIDEND

Investment manager Ed Wachenheim III believes the stock mar[ket] has become fully priced. So h[e's] looking for low-risk stocks with s[pe]cial features that should permit th[em] to rise sharply even if the overall m[ar]ket doesn't. And if there's a buy[out] angle thrown in, that would be a [big] bonus, says Wachenheim, chairman [and] CEO of Greenhaven Associates in P[ur]chase, N.Y.

Here's one that Wachenheim thi[nks] fits the bill: Allmerica Property & C[a]ualty. It primarily sells auto and ho[me] owner policies and currently trades [at] 59 a share on the Big Board. "[The] company is well-positioned in its m[ar]kets," says Wachenheim, who s[ees] earnings jumping to $7.25 a share f[rom] last year's $6.48—in spite of claims [for] huge damages caused by Hurric[ane] Andrew in Florida.

But the best incentive, he says[is] the possibility of the company be[ing] bought out by State Mutual Life [In]surance, which owns 57% of Allmer[ica]. He believes there have been seri[ous] discussions between top people at b[oth] companies on a possible merger or [di]rect acquisition by State Mutual.

An acquisition price of 1.2 to [1.4] times book value, which Wachenh[eim] figures would be "ultraconservati[ve]", would mean Allmerica is worth $7[5] $80 a share. But if there's no buyo[ut] Allmerica would still be "an excit[ing] investment," insists Wachenheim, gi[ven] the company's strong earnings po[wer] and a projected book value of $6[0] a share by 1994.

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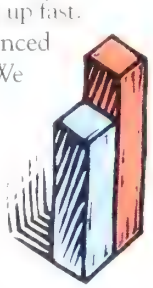

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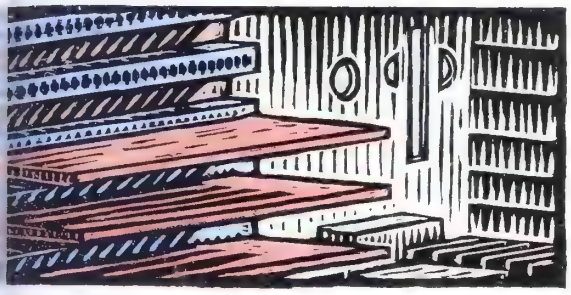

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NOVELL VS. MICROSOFT: WHAT'S BEHIND THE HATE

A failed merger produced enmity, prompting Novell to try and help snare its rival in an antitrust

Of the many rivalries in the personal-computer industry, for sheer nastiness it's hard to beat the one between Microsoft Corp. and Novell Inc. Microsoft Chairman William H. Gates III now blames Novell Chief Executive Raymond J. Noorda for keeping alive a three-year-old Federal Trade Commission antitrust investigation of Microsoft that has recently been transferred to the Justice Dept. He has publicly accused the 69-year-old Noorda of "increasingly paranoid political attacks" against Microsoft. Says Gates: "Ray has a tremendous vendetta against us."

For its part, Novell freely admits that it has played a key role in trying to snare Microsoft in a Federal antitrust trap (page 128). And the company has been open about its role in providing ammunition for a new European Community monopoly investigation of Microsoft. Caught in the middle are computer users who, because Microsoft and Novell refuse to cooperate, have troubles of their own. The biggest problem is that Novell and Microsoft can't agree on the code to make Windows NT communicate with Novell's popular NetWare networking software. "It's a nuisance," says Adam Ruef, a technical consultant for Mobil Corp., in Fairfax, Va. "Now, users have to be responsible for somehow assembling all the necessary pieces."

How did such hatred come about? Maybe it's the inevitable result of a flirtation that went flat. In 1989 and again in 1991, both companies now confirm, Gates and Noorda explored a bold plan for Microsoft to merge with Novell, Microsoft's chief software rival. In that period, FTC investigators were trying—with little success—to figure out if Microsoft's enormous market power somehow violated antitrust laws. Only after the secret merger talks came to the attention of the FTC in December, 1991, did the case gather momen
And only after the talks finally bro
in March, 1992, and Noorda began
erating with the feds more fully, d
FTC staff feel it had a strong ca
present to the commissioners.

HAPPY HOLIDAY. The story begins
vember, 1989, when Michael R. M
then director of Microsoft's Netwo
Business Unit, first floated the m
idea. With Gates's blessing, Mic
Executive Vice-President Steven A
mer called Noorda and arranged a
ing at a hotel cafe in Houston in
November. "I was surprised," r
Noorda. "I thought, 'Wow, [Gat
really aggressive.' "

At the time, Microsoft's long rel
ship with IBM was breaking dow
Microsoft was in need of a new al
calls Ballmer. Noorda liked his ind
dence and told Ballmer so. But h
said he would consider a merger, i
to fulfill his obligation to shar
ers. Noorda and Gates got to

WILLIAM GATES: He wooed Novell on and off from 1989, but now, angered by Noorda's cooperation with antitrust probers, he says Noorda has made "increasingly paranoid political attacks" against Microsoft, because "he has a tremendous vendetta against us"

RAY NOORDA: Despite a liking for independence, he considered Gates's offers but now thinks that the Microsoft chief may have initiated the merger talks mainly to pry secrets out of Novell and discourage it from going through with a planned acquisition

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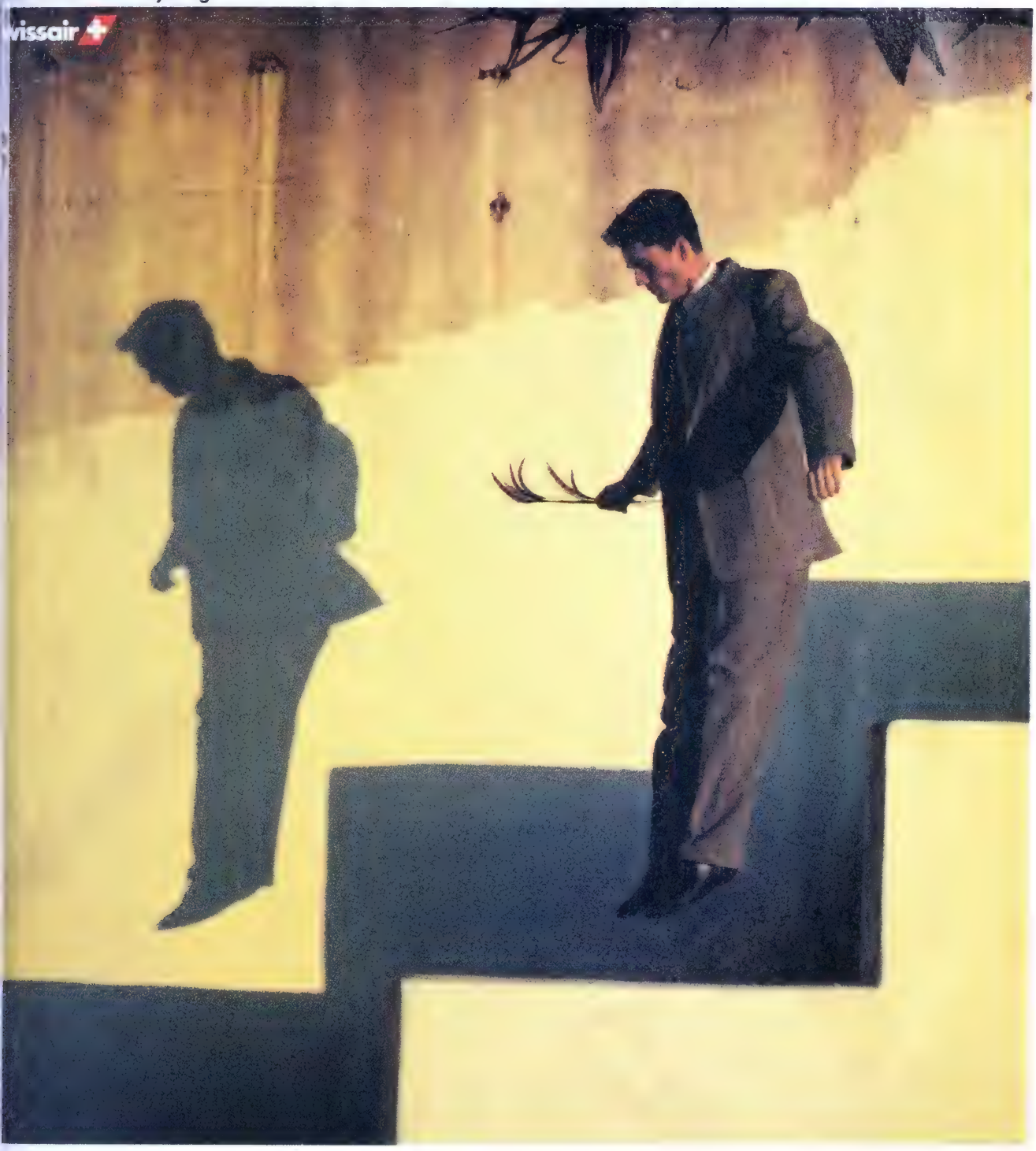

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NOVELL, MICROSOFT, AND THE FTC

1989

NOVEMBER IBM and Microsoft agree to divvy up the market for operating systems. Microsoft approaches Novell about a merger.

The Federal Trade Commission begins to look for collusion in IBM-Microsoft accord. Justice refuses to give clearance for full FTC probe.

DECEMBER Microsoft CEO Bill Gates enters into serious discussions to acquire Novell for roughly $2 billion.

1990

JANUARY The Novell-Microsoft merger talks fall apart.

MAY Justice approves informal FTC probe.

JUNE Microsoft is informed that it's the target of a probe.

NOVEMBER The FTC staff asks commissioners to authorize a formal investigation. The commissioners sit on the request for months.

1991

MARCH Microsoft announces that it's the target of an FTC investigation.

APRIL FTC investigators begin looking at how Microsoft's power in operating systems helps its applications business.

JULY Novell announces plan to buy Digital Research, maker of DR DOS, a clone of Microsoft's MS-DOS operating system. Gates restarts merger talks with Novell.

DECEMBER The FTC learns about the Novell merger talks for the first time.

1992

MARCH The Novell-Microsoft merger talks collapse again.

Noorda becomes more cooperative with the FTC.

DECEMBER The FTC's Bureau of Competition issues report recommending federal injunction against Microsoft or an administrative action.

1993

FEBRUARY Gates visits the commission in hopes of getting the FTC to back off. The commission deadlocks.

EARLY TO MIDYEAR Case is pared down and focused.

JUNE Two senators, one from Novell's home state of Utah, urge that the case go to Justice, where new antitrust chief expresses interest.

JULY Gates visits the commission again. Once again, the FTC deadlocks.

AUGUST The FTC closes the matter and hands over its file to Justice, which is now reviewing the case.

in late 1989 to outline what would have been a $2 billion buyout.

Then, all of a sudden, Microsoft stopped calling. On Jan. 10, 1990, when Noorda says he called Ballmer to find out why, he was told that Gates was worried about the programming teams from the companies collaborating only across a computer network because Gates "likes to roam the halls" and see how the work is progressing. Microsoft says it balked because of potential technical problems in merging the two product lines as well as worries about a challenge from the Justice Dept. Furthermore, "Bill doesn't like doing acquisitions," says Microsoft's Ballmer.

Not surprisingly, Noorda felt spurned, and the seeds of mistrust were planted. He suspected that Gates might have launched the talks mainly to pry secrets out of Novell, a charge that Gates today labels as "slander."

A year went by, and Microsoft's Murray again raised the idea of a Novell merger. The reason? For one thing, despite alliances with IBM and 3Com Corp., Microsoft was getting nowhere in the market with LAN Manager, its competitor to Novell's NetWare, the top-selling program for local-area networks. On July 19, Noorda says, Gates called to restart merger talks. "At first I thought it was a joke," he recalls.

Gates, however, was dead serious. And here's where the motives on both sides get murky. Noorda is convinced there was only one reason for Gates' call: Two days earlier Novell had announced plans to buy Digital Research Inc., a $50 million, Monterey (Calif.) software maker whose chief product was DR DOS, a rival to Microsoft's MS-DOS. Digital Research had just 5% of the $1 billion market for IBM-compatible PC operating systems, but with Novell as a parent, it could be a more serious threat. Gates says DR DOS had nothing to do with the merger idea.

Noorda met with Gates on a July weekend in the American Airlines Admirals Club lounge at San Francisco International Airport. Gates, according to Noorda, barely bothered to say "hello" as he breezed into the conference room and reiterated his interest in a corporate marriage. "There was only one stipulation," says Noorda. "Gates told me, 'That DRI thing has to go.'" Then, Noorda says he raised the possibility that Washington might block the merger of the No. 1 and No. 3 players in the market. Gates's reply, says Noorda: "Don't worry, we know how to handle the federal government." Gates denies having made the remark.

Two years into the probe, the FTC staff felt its case against Microsoft was weak—then it learned of the Novell talks

SUSPICIOUS. Ballmer agrees that Microsoft wanted to remove DRI from the picture—but for a totally different reason. It was clear, he says, that a merger with Novell would never get government approval if it included the purchase of Microsoft's biggest MS-DOS competitor. Furthermore, he says, it's absurd to suggest that a multibillion dollar merger was pursued just to eliminate a tiny rival. "The attraction to us was always the opportunity to get the client [Microsoft's desktop software] and servers [Novell's network software] to work together in a profound way," he [illegible] "You couldn't, in any sense, justify deal financially on the [DR DOS] issue."

Noorda says he once again felt he had a duty to shareholders to explore the opportunity. Novell might have fetched as much as $13 billion, a 50% premium over its market value, which had [illegible] rocketed since 1989. Still, both Noorda and Novell General Counsel David Bradford say they suspected Gates was merely trying to delay the DRI deal.

By now, the FTC was nearly two years into its investigation, but the staff still felt it had a weak case. It wasn't until a conference call with Novell in December, 1991, that the FTC learned of the Noorda-Microsoft talks. During the call, FTC lawyer Norris Washington asked Noorda point-blank about his relationship with Microsoft. The Novell chief, who had been playing his cards close to his vest, told Washington about the merger talks. "There was a long silence," recalls Noorda. "It was just very quiet on the other end of the phone."

Soon, in March, 1992, the second Novell-Microsoft merger talks collapsed, and their relationship turned ugly. Already leery of Gates' sincerity, Noorda says he called off the negotiations when he learned that Gates was also planning to buy data-base maker Fox Software Inc.—a deal he didn't tell Noorda about. Noorda began cooperating more fully with the FTC, joining companies such

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In the last couple of years, we've heard a lot from you, our customers, about what you needed so you could serve *your* customers better.

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The result? A 95% improvement in delivering software that works the first time out, and every time out. Which set a new standard in the industry. And can significantly cut your maintenance costs.

This means that instead of worrying about fixing software problems, you can invest in generating new services like advanced video applications.

Which ought to please your customers no end.

And that isn't so boring, is it?

AT&T
Network Systems

Lotus Development Corp. and Borland International Inc. in helping the government build a case. Soon Microsoft executives had a new nickname for the folksy, avuncular Noorda: "the grandfather from hell." Ballmer now calls Noorda and company "a bunch of wily, shark business people."

Both Microsoft and Novell brought on hired guns to do battle before the FTC. Microsoft picked Patricia P. Bailey, a former FTC commissioner. Novell signed up onetime FTC General Counsel Michael N. Sohn and the Washington public-relations firm of Fleishman Hillard Inc. Worried that the Feds would take no action, Noorda asked Sohn to analyze the prospects for a private lawsuit. Sohn advised that it would be the legal equivalent of Vietnam for Novell.

The cold war between Novell and Microsoft is still in full cry. In addition to fueling the EC monopoly suit, Novell has been instrumental in keeping the FTC investigation alive. Gates learned that the Justice Dept. had agreed to take up the FTC probe just as he was about to address securities analysts at Microsoft's Redmond (Wash.) headqua
Ignoring the recommendation of h
visers to avoid the topic, he lau
into a tirade about the antitrust in
gation and an attack on Noorda.

Meanwhile, customers are gro
tired of the feud. "They have an o
tion to resolve this issue," says R
Mobil. If they can't patch up their
ences—and figure out how to make
their software is compatible—they
to lose a lot more than a grudge m

By Mark Lewyn in Washington, with Richard Brandt in San Francisco

HOW MICROSOFT WOUND UP IN JUSTICE'S LAP

Soon, the Justice Dept. is expected to decide whether to pursue a civil antitrust suit against Microsoft Corp. After a three-year probe by the Federal Trade Commission involving hundreds of depositions and millions of documents, the case is already the biggest antitrust probe in more than a decade. If Justice proceeds, it could reshape a vital industry and redefine antitrust policy for the Information Age.

Or the case could once again be caught up in the politics of Washington and Silicon Valley and fall into the time warp of the federal bureaucracy. Certainly, the history of the FTC probe could serve as a cautionary tale of slow-moving bureaucrats trying to regulate a fast-moving industry. In pursuing Microsoft, the FTC wasted its first year trying to prove collusion with IBM—even though the two companies had almost stopped speaking.

As for politics, Justice Dept. officials don't have to wait. Even before the FTC prepared for its final July 21 vote, two members of the Senate Judiciary Committee announced that if the commissioners deadlocked again, as they had in February, the case should be handed over to Justice. One was Senator Howard M. Metzenbaum (D-Ohio). The other was Orrin G. Hatch (R-Utah), home of Microsoft nemesis Novell Inc. Gates asks, rhetorically: "Orrin Hatch comes from what state? Who [do you think] talked to him?" Noorda did call the senator's office to thank him, a Hatch aide says.

REDUCED CHARGES. From the start, the FTC probe hit snags. First, the Justice Dept. was reluctant to give permission to FTC staffers to take on such a high-level probe, taking six months to give the green light. The next hang-up was by FTC commissioners, who took six months to give staffers the powers to issue subpoenas.

Despite delays and unfamiliarity with of the computer industry, by late 1992 the staff had what it thought was a strong case—centered on charges that Microsoft appeared to make its software incompatible with rival products and uses a particular discount scheme to freeze out competitors. So confident were FTC staffers that they took the unprecedented step of recommending an immediate injunction against Microsoft while a court case was prepared.

ANTITRUST'S BINGAMAN PUSHED FOR A REVIEW BY JUSTICE

But the politics of the commission may have predetermined the deadlock: Two commissioners favor tough enforcement, two are laissez-faire types, and the potential tie-breaker, Roscoe B. Starek III, recused himself, citing an undisclosed financial conflict. The commissioners did agree to a second review, and the staff scrambled to streamline its case. "Instead of charging them with murder, kidnapping, and rape, we just chose kidnapping," says a staffer.

As the July vote neared, Gates
with the FTC commissioners. He fo
a soul mate in Deborah K. Owe
conservative who seemed sympath
But he didn't get along nearly as
with the others. When one sugge
that Microsoft could be more coop
tive by previewing its programs
rivals, Gates, says an FTC sta
retorted sarcastically: "Su
you want to be a Commu
about it, we could do that." G
won't confirm the comment,
says he grew impatient. "I
seem to think that was ra
socialistic," he recalls.

After the second FTC dead
it was a short trip to Jus
Anne K. Bingaman, the new
trust chief, had called the
commissioners in July to s
they would relinquish the
One, who wanted the issu
die, angrily told Bingaman
she had no right to take c
But Bingaman persisted. "W
effect, could act as the fifth
missioner," she says. And M
Lou Steptoe, director of the FTC's
reau of Competition, did her part.
der law, an attorney in her office
the authority to pass the case to
tice, unless the FTC revoked that po
In late July, she informed the comm
sioners of her intention to do so w
24 hours. Owen attempted to for
vote, but couldn't muster a second

What will Justice do? It should
cide by October whether to purs
serious probe, says a senior off
there. If the evidence warrants, Bi
man could bring charges by as ear
February or March. But if Justice
move quickly, the issue will agai
consumed by the infighting in both
software industry and in Washing

*By Mark Lewyn, with Catherine Y
in Washington*

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CALLING click!

WITH PHONE GIANTS NOW FACING OFF AGAINST

ALL click!

CABLE RIVALS, THE INFORMATION SUPERHIGHWAY

CHANNELS

MAY ARRIVE YEARS SOONER THAN EXPECTED

It's an unlikely spot to find what could be the future of the telephone industry. The dingy Art Deco structure is like so many other old Bell System buildings dotting American downtowns. But step inside the Chesapeake & Potomac Telephone Co. office in Arlington, Va., and take a tour. Past the equipment that switches phone calls for the Washington suburb lies a sealed-off room housing shiny new IBM computers. They're no ordinary machines—they hold dozens of movies, TV shows, and educational programs that have been turned into computer code. By punching in a few numbers on their phones, some Arlington residents can have these shows zapped across the phone lines and into their TV sets. Here's where the information superhighway—or at least a small stretch of it—is being laid.

What the Bell Atlantic Corp. subsidiary is up to is unusual, but it's hardly unique. Its experiment, which tests new technology to pump digital video over copper phone wires rather than over costly fiber-optic cabling, is just one of dozens of video projects under way at the nation's phone companies. Indeed, while the cable-TV industry has hogged the spotlight in the information-superhighway derby—with shrewdly timed announcements, lobbying campaigns, and huge deals—such as cable operator Viacom International Inc.'s proposed takeover of Paramount Communications Inc., the race is only just beginning. And the phone companies are now making their moves. The result: The information superhighway could pull up to U. S. homes sooner than many experts expected.

Like Bell Atlantic, companies ranging from Nynex to American Telephone & Telegraph have been quietly working on ways to deliver interactive video and reams of other information to PCs and TV sets in homes and offices (table, page 132). These companies may be new to video and don't know their way around Hollywood yet, but they have some big advantages. A century of switching signals to millions of phone lines and keeping track of whom to bill for what gives them a leg up on cable companies when it comes to managing interactive TV. And the phone companies are already ahead of cable operators in upgrading backbone networks with the fiber lines needed for advanced video services. Finally, strong balance sheets will allow them to raise billions to complete their rebuilding programs.

DEEP POCKETS GIVE THE BELLS A BIG EDGE

Of course, phone companies have disadvantages, too, including more stringent regulations than those cable companies face. But now some of the biggest regulatory barriers—the ones that kept the seven Baby Bell regional companies out of video—are falling. In many industry-watchers call a wat decision, on Aug. 24, a federal struck down as unconstitutional th tion of the 1984 Cable Act that ba Baby Bells from creating, owni even packaging video programmi tributed inside their telephone s regions. (In Bell Atlantic's Arlingt periment, the programming sup control how the shows are prese

LEGAL AMMO. "This decision heats up the race," says Thom Gage, a vice-president at Gemin sulting, a high-tech advisory fi Morristown, N. J. Although the applies only to Bell Atlantic, whic the lawsuit, if the decision is u the reasoning behind it should p legal ammunition for other phone

to get their video restrictions re-
ed as well. The federal judge found
barring phone companies from vid-
ervice violates their First Amend-
rights. The other Baby Bells, along
GTE Corp. and Rochester Telephone
., have asked the judge to rule that
lecision applies nationwide.

r years, the local phone companies
argued that unless they can profit
the creation and sale of program-
—rather than just transmitting the
ent" for others—it would not be
hwhile for them to invest heavily in
ading their networks to handle dig-
video and other data. Neither the
ruling allowing Baby Bells to partic-
in information services nor last
's "video dial tone" ruling, which
its local phone companies to con-
ct video pipelines to homes, was
gh to induce the local phone compa-
nies to pump money into video. The Federal Communications Commission's video dial tone decision carried big restrictions, including a rule that kept Baby Bells from owning more than a 5% stake in the programming.

Now, with the liberating August ruling in hand, Bell Atlantic plans to turn itself into a programming powerhouse that could challenge such giants as Home Box Office Inc. and Nickelodeon. The Philadelphia-based company is betting that it can be first with such interactive services as home-education programs in which viewers answer questions and receive a grade at the end. "We are going to be a very good competitor for the cable companies," boasts Bell Atlantic's chairman and CEO, Raymond W. Smith (page 134).

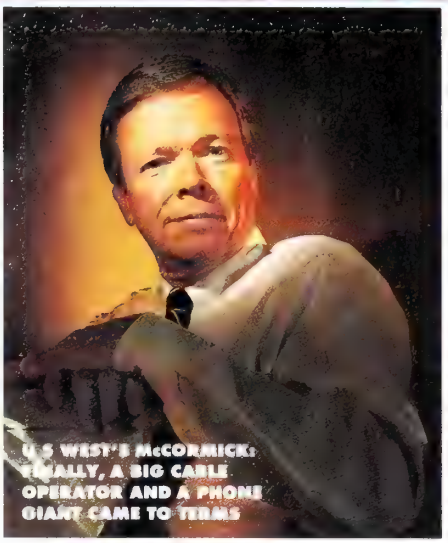
Other Baby Bells seem intent on becoming very good allies with cable companies. In May, U S West Inc. announced a $2.5 billion investment in cable and programming giant Time Warner Inc. Under it, the two will rebuild Time Warner's cable systems so they can offer video-on-demand services. The huge deal, orchestrated by U S West CEO Richard D. McCormick, could clear the way for more such megadeals. Even now, industry executives say Viacom is courting several Baby Bells to join in the $8.2 billion alliance with Paramount.

Meanwhile, Southwestern Bell Corp. has agreed to buy two Washington-area cable systems outright. If approved by regulators, the $650 million deal with Hauser Communications Inc. will be the first in which a U. S. phone company has taken over a domestic cable operator. These deals follow by several years Baby Bell investments in video services overseas. Ameritech Corp. is part-owner

of a New Zealand cable system while Nynex, Southwestern Bell, and U S West, along with partners that include U.S. cable companies, have built advanced networks that bring telephone and cable-TV service into British homes over a single line (page 136). That experience could be a big edge if they get a clear go-ahead to create such hybrid networks in the U. S.

In addition to the local phone companies, the U. S. long-distance giants have video schemes of their own. AT&T, for instance, wants to build a system of computers and advanced switches that would store and send digitized video programs, acting as the national link for the local phone and cable systems that reach consumers' homes. Sprint Corp. recently announced that it has built the first nationwide system that uses new phone-switching technology called asynchronous transfer mode, or ATM, that its backers say can send video signals as easily as voice calls. MCI Communications Corp. also is eyeing video services, though it has announced no firm plans.

ROBOSHOPPER. What this all points to is an accelerating race to deliver the long-promised services of the superhighway: movies on demand, interactive video town meetings, long-distance medical diagnosis, and more sophisticated forms of TV shopping, to name a few. If the phone companies get final clearance, the race to beat cable giants to market could move up completion of a national information superhighway long before the



U S WEST'S McCORMICK: FINALLY, A BIG CABLE OPERATOR AND A PHONE GIANT CAME TO TERMS

2015 target established by federal policymakers, says Joseph S. Kraemer, a telecom consultant at Deloitte & Touche.

Certainly, the financial clout of the phone companies could be a decisive factor, since the superhighway network could cost hundreds of billions to build. "Phone companies have access to huge amounts of capital," says Kidder, Peabody & Co. analyst Steven R. Yanis. Phone companies have higher credit ratings on average than cable companies, allowing them to raise funds more cheaply on the debt market. They also enjoy huge cash flows from their phone businesses. And two-thirds of the states have modified their regulations to make it easier for the phone companies to justify the big investments needed to upgrade their networks, Yanis says.

The local phone companies have other big advantages, too. Even now, just 60% of U. S. households get cable, while phone wires reach nearly everyone. And phone company computers are geared to account for the millions of transactions that would cross an interactive network. Phone companies also have a less tangible advantage: far better customer relations. Indeed, the reputation for bad service by cable companies was a big factor when Congress voted to regulate the industry last year.

FREE-FOR-ALL. The phone companies may be more inclined to team up than rivals. Analysts expect more deals like the U S West-Time Warner alliance, giving phone companies a shortcut into programming or a way to reach beyond their home regions. Other combinations could help weak cable operators with local phone companies to jointly build a video network, though such alliances could raise antitrust concerns. Still others could be marriages between titans. The industry grapevine is still abuzz about AT&T joining forces with Tele-Communications Inc., the largest cable operator. The mix-and-match alliance-building could produce several wild years as the industries sort things out. "Some of you'll cooperate, some places you'll compete," says Brian L. Roberts, president of cable operator Comcast Corp.

Splicing cable and phone com-

THE PHONE INDUSTRY'S VIDEO SCHEMES

Phone companies want to build information highways that will send interactive video and other digitized data to your living room as readily as phone calls.

AMERITECH Building fiber-optic lines close to major customers. Testing several interactive video services. Part owner of a New Zealand cable system.

AT&T Wants to build a national network of computers to store and forward movies and other "content" to local distributors, such as cable companies and Baby Bells.

BELL ATLANTIC Testing new video-delivery technology and plans to rebuild much of its system for interactive services. Also entering the video-programming business.

BELL SOUTH Has rebuilt much of its network with fiber lines, though not to homes. Installing advanced ATM switching technology that could send video to homes.

GTE Few concrete plans, but has named a vice-president of video services. Testing an interactive network in Cerritos, Calif.

MCI Hasn't talked much about interactive services. But has $4.3 billion in cash from sale of 20% to British Telecommunications.

NYNEX Major player in the British market for cable-phone systems, but says little about U.S. plans. Will test interactive video services in New York City.

PACIFIC TELESIS Held inconclusive talks with cable companies to cooperate. Plans to rewire California for information highway by 2015. Plans to test video on demand.

SOUTHWESTERN BELL Buying two Washington (D.C.)-area cable TV systems for $650 million. Says little about its video plans in home region. Also in British market.

SPRINT Claims it's first phone company to offer a national network of advanced ATM switches for video traffic to big customers. Few disclosed video plans.

U S WEST Its $2.5 billion investment in cable giant Time Warner Inc. transforms phone-cable competition. Plans to rewire its phone territory for two-way video services. Owns half of a British cable-phone system.

Nonstop to London.
Showers expected upon arrival.

British Airways' new arrival facilities at London's Heathrow and Gatwick airports are making quite a splash. Now, ClubWorld℠ and First Class passengers can enjoy a hot shower and breakfast or even catch up on business in our private lounge. You'll be off to a flying start. *It's the way we make you feel* that makes us the world's favourite airline.

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together remains a tricky undertaking. "There are so many restrictions to us working together," says Lee G. Camp, CEO of Pacific Telesis Group's Pacific Bell Information Services, that he gave up looking for a partner. For example, the ban keeping Bell companies out of long-distance phone service also prevents them from carrying video beyond local calling areas, limiting their appeal to cable partners.

With recent developments such as the Bell Atlantic ruling, however, industry-watchers and Wall Street are beginning to anticipate the end of the old restrictions. And they're viewing the phone giants in a far more optimistic light. Just a few months ago, it seemed (on Wall Street at least) that the cable companies had the information superhighway sewn up and were ready to sweep into local phone service, too. A lot of investors believed that "the phone companies are dinosaurs," says Kidder Peabody's Yanis. Following the August court decision, shares of the Baby Bells have risen. But cable stocks climbed, too—apparently on the belief that they will benefit from alliances with the phone companies.

Now, Wall Street, cable executives, and other phone companies are watching Bell Atlantic closely as it wires 60,000 homes in Alexandria, Va., next door to Arlington, with fiber-optic lines. The system, which could take up to 18 months to construct, will provide direct competition with the city's incumbent cable system, operated by Jones Intercable Inc.

INTERIM STEP. In particular, the observers want to see just how the phone company surmounts technical hurdles—and at what cost. For the Arlington experiment, which has only Bell Atlantic employees as customers, the company is using existing lines instead of stringing fiber-optic cable all the way to homes, which would cost $1,000 to $1,500 per line. Instead, Bell Atlantic is relying on a technique called asymmetric digital subscriber line, or ADSL, that can shoot the digital bits that make up a movi show from Bell Atlantic's com over copper phone lines into rooms. And customers can stil calls while watching a movie.

Cable companies dismiss the technology, which was develop Bellcore, the research arm of th Bells. One prominent cable exe calls the Bell Atlantic ADSL trial stunt," noting its location near the of many members of Congress a ployees of federal regulatory ag Indeed, the current state-of-the-ar system is limited in that it can fe one program at a time to a ho though a new version capable of s four different programs to four se the works. And ADSL's picture while acceptable, is only about a as that of videotape. Finally, ADS provide some advanced features s video phone calls. In fact, Bell A says ADSL is largely an interim t ogy that it will use while it establ market for on-demand program

BELL ATLANTIC REACHES FOR THE STARS—IN HOLLYWOOD

Michael Lasky is your typical bicoastal entertainment executive. He used to acquire movies for the video division of Carolco Pictures Inc. in Los Angeles. Before that, he lived in New York City, where he bought movies for the Showtime premium cable network. Now, he is in Arlington, Va., working for the phone company, Bell Atlantic Corp.

Say what? "If you had told me a year ago that I would be working at a phone company, I'd have said 'Get out of here,'" laughs Lasky. Like many entertainment types, he figured the Baby Bells were bureaucratic, boring, and staid—quite unlike the freewheeling atmosphere at Hollywood studios such as Carolco. Yet after hearing about Bell Atlantic's high ambitions in multimedia programming, Lasky took a flyer. Now, six months later, he is convinced that Bell Atlantic is an entertainment company for the 21st century.

Granted, Bell Atlantic owns neither a movie studio nor a cable network. Its top executives still talk more about asynchronous transmission than about *Single White Female*. But in a recent court ruling, Bell Atlantic won the right to sell entertainment programs over its telephone network. And the Baby Bell fully intends to take on such multimedia giants as Time Warner Inc. and the proposed Paramount-Viacom combine.

NAVIGATIONAL AID. What's more, Bell Atlantic thinks it can lead the way in one critical area: the evolving business of helping viewers navigate the bewildering choices promised by interactive televi sion. On the eighth floor of Be Arlington office building, Las other employees are developi ticated interactive system wi name of Stargazer.

Basically, Stargazer turns into a shopping mall for vid By pressing buttons on a r trol, you can call up everyt movies and TV shows to inter mercials and home shopping. theoretical concept, either: toon-like representation of a ly appears on the TV screen. tic executive mall is intend the Stargaze easy for tech dled viewers.

Programs a options are a and down hall an elevator t the viewer fr floor. The Sta totype featur studio store s videos and m phernalia. Ot offer vintage programming f educational s features on h fitness.

For now, B is testing only

BELL ATLANTIC'S BUSHKIN: STARGAZER AMOUNTS TO A MALL FOR INTERACTIVE VIDEO

keep cable operators at bay. Lat- company plans to rewire most ar- ith fiber.

l, no U.S. cable system can yet at the Bell Atlantic ADSL service day: allow a viewer to order a or other show and have it ap- n the TV set in a min- two. Most cable compa- y-per-view setups offer a few hit movies and at set times. For the companies, "technology really the obstacle here, ms of getting [video] es to homes and busi- s. It's regulatory barriers," says R. Edson, vice-president of busi- levelopment at Ameritech.

ed, the regulatory arena is where ost violent clashes between cable- d phone companies are occurring. newed rate regulation limits their to invest, the cable companies ying foul at the possibility that lls will use profits from their local phone-service monopolies to fund the replacement of copper wires with fiber or coaxial cable. They contend that phone companies should not be allowed to offer video services until there is vigorous competition in local phone service, including by cable players.

INVESTORS SEE THE BELLS IN A NEW LIGHT

The debate may come to a head this fall when Congress is scheduled to discuss several bills to loosen regulations. The Bell Atlantic video ruling is a wake-up call to legislators and regulators that if they don't reshape communications policy, the courts will. Already, the ruling opens up the possibility that Baby Bells can simply buy local cable companies to get into video, though Bell Atlantic says it has no plans to do so. Such a move could replace two monopolies in each community with one huge one—a development sure to raise public apprehension.

But the momentum appears to be on the local phone companies' side. AT&T's $12.6 billion deal last month to buy McCaw Cellular Communications Inc. gives the Baby Bells more leverage in their push for deregulation. Through the new alliance, they say, AT&T can reenter local phone service through wireless connections. And if AT&T can get into local service, the Baby Bells say they should be allowed into long distance.

Clearly, there will be winners and losers in both the cable and phone industries. It is as risky to be too early to the interactive video market—with products that don't quite work—as it is to be too late. But with the right mix of technology, services, and partners, the phone industry could take a leading role in building the information superhighway. And it could speed up the construction, ending years of hype and bringing the Information Age into American living rooms sooner than anyone expected.

By Bart Ziegler in New York, with Kathy Rebello in San Francisco, Lois Therrien in Chicago, Peter Burrows in Dallas, and bureau reports

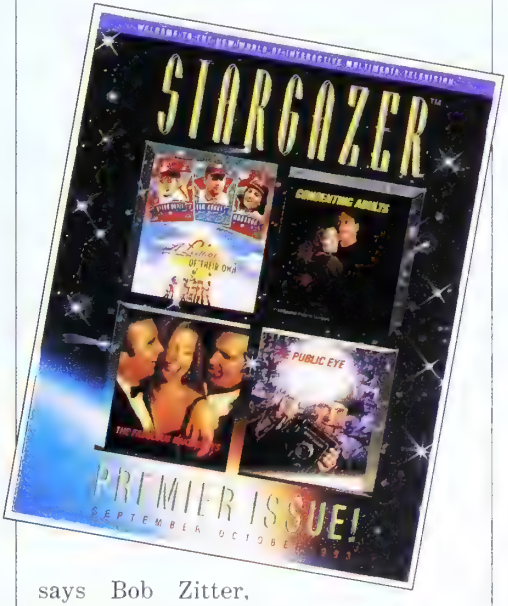
---

m of Stargazer in the house- of its employees in northern ut the company plans to ex- test to 400 and later 1,000 . And it will soon ask the Fed- unications Commission for per- test the system with outside

ears from now, Bell Atlantic ell Stargazer throughout its gion. The Baby Bell may also hardware and software to ri- ne and cable companies. Ar- kin, president of information Bell Atlantic, says the compa- ady talking to more than 20 anies. "We're not doing this e a piece of the $20 billion ca- ," says Bushkin, "We have our uch larger target."

LLAR BABY? Bushkin wants to become an industry stan- avigating interactive TV. That w Bell Atlantic to break into lucrative markets such as pping and banking, since it receive a percentage of the result from using the Stargaz- Bushkin also wants to charge ent for space in his electronic nvisions one or two "anchor" us an array of specialty stores. any streams of revenue, says nteractive video services could be worth billions in new rev- ell Atlantic.

shkin faces keen competition. ner, Tele-Communications, Via- rican Telephone & Telegraph, Apple Computer, and Ameri- tech are all developing software for interactive TV systems. Time Warner executives point out that while Bell Atlantic has expertise in areas such as digital switching, it can't draw on the savvy of Home Box Office and Warner Brothers Inc. "Technology is not the major component in creating, packaging, and marketing products to consumers,"



says Bob Zitter, senior vice-president for technology operations at HBO.

Outside observers also note that telephone companies have a checkered record in divining consumer tastes: "Phone companies commit classic marketing mistakes," says Jerome Lucas, president of consulting firm TeleStrategies. "These are the guys whose predecessors brought you the video phone during the Sixties."

For its Arlington test, at least, Bell Atlantic has assembled an impressive array of Hollywood studios and TV networks: Walt Disney, Paramount Pictures, NBC, HBO, and USA Network, to name a few. This month, employees can order movies such as *The Fabulous Baker Boys* and *A League of Their Own*. But Bell Atlantic got all this programming gratis in return for sharing its market research from the test. Now it must renegotiate those deals for real money.

HACKER HEAVEN. To cultivate Hollywood and retailers, Bushkin has recruited industry veterans such as Lasky and Bob Townsend, a former top executive at Home Shopping Network. These days, they mingle with computer hackers, who are writing interactive software, and telecommunications experts, who focus on digital switching and video servers. Bushkin has also hired people from the catalog and travel industries to help Stargazer break into those businesses.

For good measure, Bushkin has thrown in one executive with experience at Qube, a failed effort at interactive cable TV that Warner Communications Inc. and American Express Co. started in 1976. With an almost $50 million annual budget on the line, Bushkin doesn't want to repeat the mistakes of such pioneers. Stargazer is a nifty brand name, and he would hate for it to be an ironic epitaph for another foolhardy foray into interactive television.

By Mark Landler in Arlington, Va.

BRITAIN RACES AHEAD DOWN THE DATA SUPERHIGHWAY

Countries on the Continent, hobbled by regulation, are playing catch-up

As U. S. phone companies wrestle with regulatory problems and begin to noodle with the ins and outs of video programming, they might do well to take time out for a trip to London's run-down borough of Lewisham. There, above a bowling alley, past a receptionist seated behind bullet-proof glass, down a corridor of temporary room dividers, behind which sit a beehive of telephone sales workers with heavy cockney accents, is what the Americans are hoping someday to accomplish. In a large office with floor-to-ceiling banks of computers and recorders downloading TV shows from satellites, a technician sits nearby, wolfing down french fries.

This is the nerve center for Videotron Corp., a unit of Montreal's Le Groupe Vidéotron, the second-largest cable-TV operator in Canada and the owner of cable franchises cutting a half-moon-shaped swath from northwest to southeast London. It may not be fancy, but Videotron is definitely on the cutting edge. Its communications network, developed with BCE Inc., the parent of Bell Canada and owner of 31% of Videotron's British operation, offers the futuristic services that media moguls in the U. S. only dream about.

Europe as a whole may be lagging behind the U. S. in the drive to create new information highways. But throughout deregulated Britain, a rich mix of Baby Bell telephone companies, cable-TV operators, media companies, long-distance carriers, and technology boutiques are installing networks to carry video, voice, and data to British homes and businesses. No other country has liberalized telecommunications as much as Britain has. Since 1991, the government has allowed both TV and telephone on the same network, making the costly investment in fiber optics worthwhile. Says Richard Callahan, president of U S West International: "In many ways, we're further along in Britain than we are in the U. S."

"MAD BAD REMIX." In a few years, beneath just about every major street in Britain, gleaming fibers will carry gobs of digital data, pictures, or voice messages into living rooms. "What we're doing here is providing the most advanced infrastructure anywhere in the world," says Eugene P. Connell, president of Nynex CableComms, a subsidiary of Nynex Corp. "This is the path we'll pursue in the U. S." Baby Bell executives already are rotating back to the U. S. to apply what they have learned in Britain. Those lessons also could be applied throughout Europe and perhaps Japan.

LAYING CABLE: NYNEX WILL SPEND $3 BILLION IN BRITAIN OVER FOUR YEARS

In technical terms, Videotron and other operators in Britain are building a fiber-optic, high-bandwidth, fully switched, digitized network that can carry interactive voice, data, and video signals. That means they can offer both cable TV and telephone over the same network, allowing some 500,000 current subscribers to receive two-way programs, such as home shopping. Six of the operators have formed London Interconnect, a consortium of hybrid cable-plus-telephone companies to negotiate with three film studios to provide a per-view movie channel. The same is also about to fund its own local show.

At first, these fledgling operators lied totally on telephone companies cury, a unit of Cable & Wireless British Telecommunications to their telephone traffic. But now are installing their own switches, vices that route voice signals to destinations. Once installed, the sy will reduce the companies' relia rival carriers, and they'll be able t more of the revenue from each ca also will dramatically expand the of services they

Videotron vi for example, w able to watch a game and choose era angles or inst plays when they u using an early fo interactive TV. Cl can select from ety of interactive and do their own bad remix," whe sound effects ar tures of tele shows are jumb the way they Gourmet cooks even have their o teractive channel, ing them to watch pastries puff ag call up a recipe f evening meal.

You don't have a rocket scientist to hook up the tron service, called Videoway. A c er sits on top of the TV set and so the signals coming into the home. cia Ann Wright and her three learned within minutes how to u deoway and its interactive g "There's a bleep thing that b around the screen," Wright says, to explain how one game works. she would like her sons to use the math, and other mind-challenging tions, the boys prefer the action-p video games.

The cost? Customers pay about month for both telephone and the

ANDREW MONTE • KATE SABA

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package of cable-TV services. There is no additional charge for Videoway, but premium movie channels cost extra. Most subscribers save so much money on the telephone service, compared with what they would be paying domestic telephone giant BT, that the cable service is virtually free.

BUILDING IN BERLIN. In comparison with Britain, there are mere pockets of experimentation throughout most of the rest of Europe (table). While Britain deregulated its telecom market in 1991, the Continent will remain shackled at least until 1998. That's because European Community ministers this spring decided to let state-owned telephone companies retain monopoly rights to voice services until then. The ruling knocks the wind out of any economic justification for cable-TV or other competitors to challenge the dominant state-owned giants. "Nobody's going to build a superhighway if they can't provide voice and other services on the back of it," says Richard Woollam, director of the Cable Television Assn.

The emergence of more sophisticated Europewide highways will depend on experiments such as the one that Europe's national carriers will start next year. The 17 telephone companies, with their often incompatible systems, will practice switching picture and data signals for two years and will use equipment that ultimately could create the backbone of a European digital network. A separate series of projects, backed by the European Community, will be testing broadband services, which will probably include financial, academic, and other applications.

One of the single most sophisticated experiments has been under way in Berlin since 1986. DeTe Berkom, a joint project of the city of Berlin and Deutsch Bundespost Telekom, has tested such services as TeleMedicine for physicians and TelePublishing for personalized electronic newspapers. When the project installs an advanced switch this fall, it will complete a superhighway that reaches throughout Berlin. Meanwhile, DeTe Berkom, IBM, Hewlett-Packard, Digital Equipment, Siemens-Nixdorf, and others recently struck an accord on a protocol for the exchange of multimedia information between different computers. "We hope this will be a basic standard to build future multimedia applications on—not just in Europe, but for the world," says DeTe Berkom President Jürgen Kanzow.

But clearly the biggest push toward the future is in Britain, where the separation between the cable-TV and telephone markets is rapidly blurring. Nynex has sunk $300 million into its grand plan and intends to spend $3 billion over the next four years. It has the largest subscriber base so far. TeleWest, a joint venture between U S West and Tele-Communications Inc., each with a 50% share, isn't far behind. Southwestern Bell and Cox Cable, Comcast and Singapore Telecom, and Bell Canada and Jones Cable also have joint ventures, and they're all busy digging up the streets of Manchester, Birmingham, and Liverpool.

"THE PERFECT LAB." Altogether, these operators have invested about $2 billion in just three years and plan to spend $10 billion more laying their own fiber-optic networks and installing switches. They are gaining invaluable experience. "We already knew how to run a telephone company. Now we're learning how to own and run a cable network service," says Ernie J. Carey, director of Network Operations & Planning at Southwestern Bell's Woking office.

The British government has encouraged this competitive furor by adopting such an open regulatory regime. "There are no rate regulations, no content restrictions, no limits on what we can send over the network. It's the perfect laboratory," says Louis Brunel, who is Videotron's group managing director.

Full-fledged multimedia won't op, however, unless customers a ing to obtain most of their curre mation, communication, and tainment services from one Since mid-1992, some 200,000 have taken their first steps d multimedia fast lane by orderi phone service from the cable co and telling British Telecom to ta its equipment.

But whether customer dema materialize in sufficient strengt question that dogs the upstart tors. Another is: When will the British Telecom counterattac surely will. BT can't offer enter over its phone network until 199 earliest, when regulators will re scene.

But BT hasn't been twidd thumbs. It still has 90% of the telephone market, despite th Bells' invasion. BT isn't talki sources say the company is co asking regulators to let it offe one services, such as videos on in conjunction with Rupert M BSkyB. BT officials will argue t services are not exactly broa since any video would go to customer. Such a move would b set off a mad scramble among ing competitors.

It may be the next century b rope puts all the new technol gether into one massive netw the telly-crazed British consum ly to give the giants of the indu first clues as to whether t wants—and is willing to pay zling multimedia services sent costly new information roadbe see what the future holds, keep on Britain.

By Paula Dwyer in Lon Jonathan B. Levine in Paris

EUROPE'S SUPERHIGHWAYS

EUROPEWIDE

▶ **DIGITAL NETWORKS** Europe soon will begin a two-year trial to tie together 17 incompatible telephone networks.

▶ **BROADBAND SERVICES** A European Community program this fall will test services such as financial, medical, and computer-aided design applications.

BRITAIN

▶ **CABLE-PLUS-TELEPHONE** Nynex, Southwestern Bell, U S West, Singapore Telecom, and Bell Canada, along with cable operators Tele-Communications Inc., Jones Intercable, Cox Cable, and Comcast, are laying fiber optics in most neighborhoods.

FRANCE

▶ **FIBER-OPTIC NETWORKS** France Telecom has begun four pilot projects to test high-capacity systems to homes and offices.

▶ **INTERACTIVE CABLE TV** Plaisance Television soon will launch two interactive cable-TV channels that will carry home shopping and video games. Users will press the telephone touchpad to shop at home or video games.

▶ **INFORMATION SERVICES** Minitel's nationwide videotext system provides banking and shopping.

GERMANY

▶ **DeTe BERKOM PROJECT** Berlin and Deutsch Bundespost Telekom are te many services, including one that wi physicians to videoconference over X-rays and medical histories.

DATA: BUSINESS WEEK

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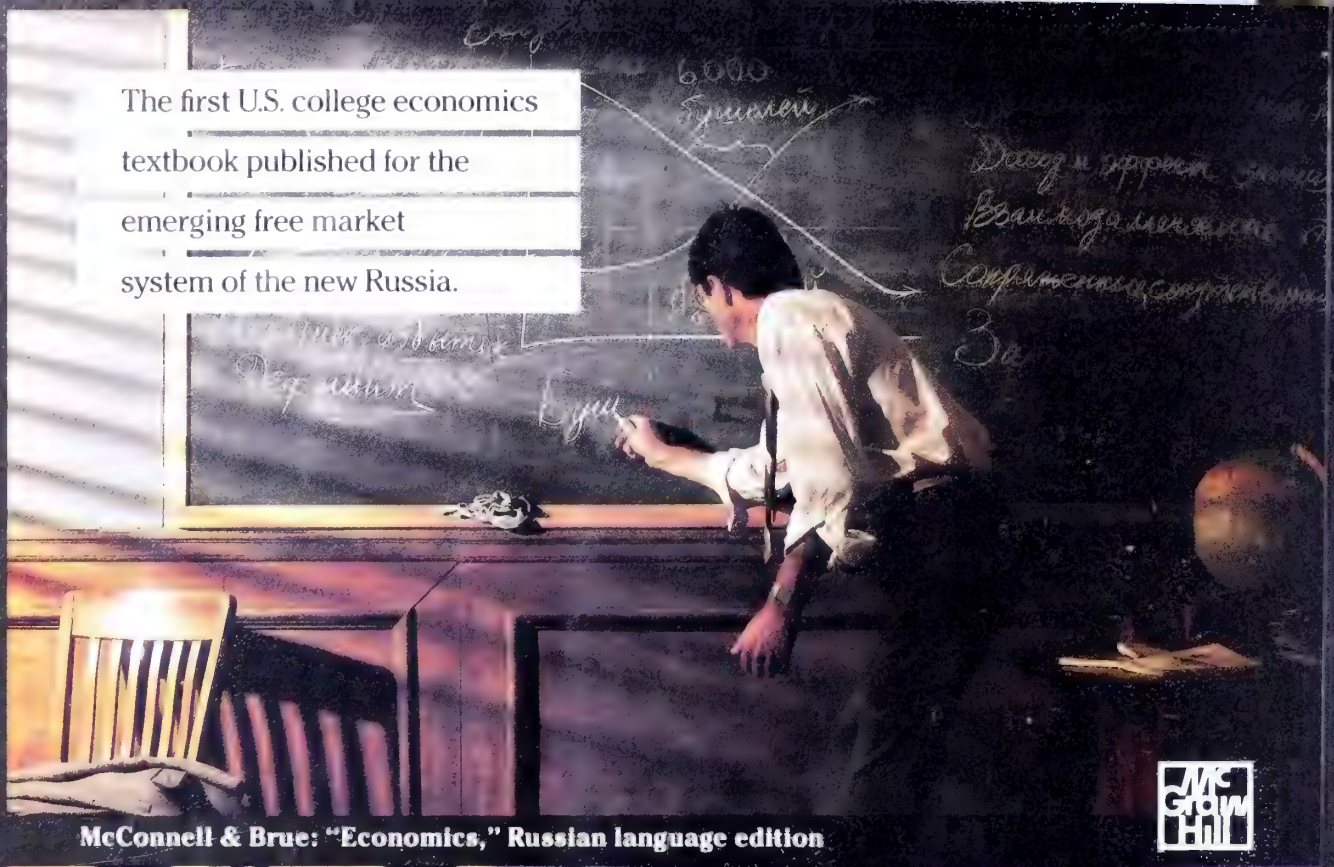
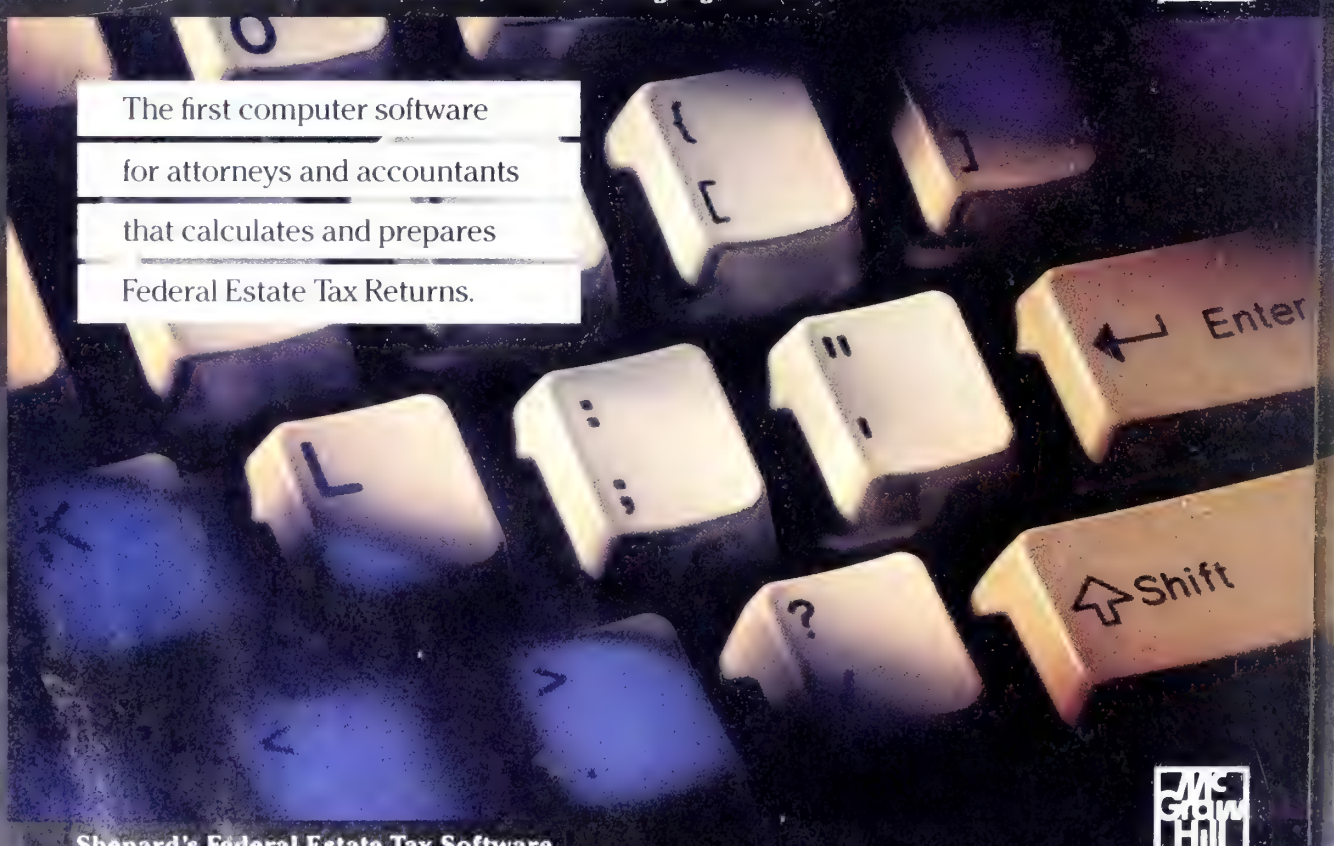


McConnell & Brue: "Economics," Russian language edition



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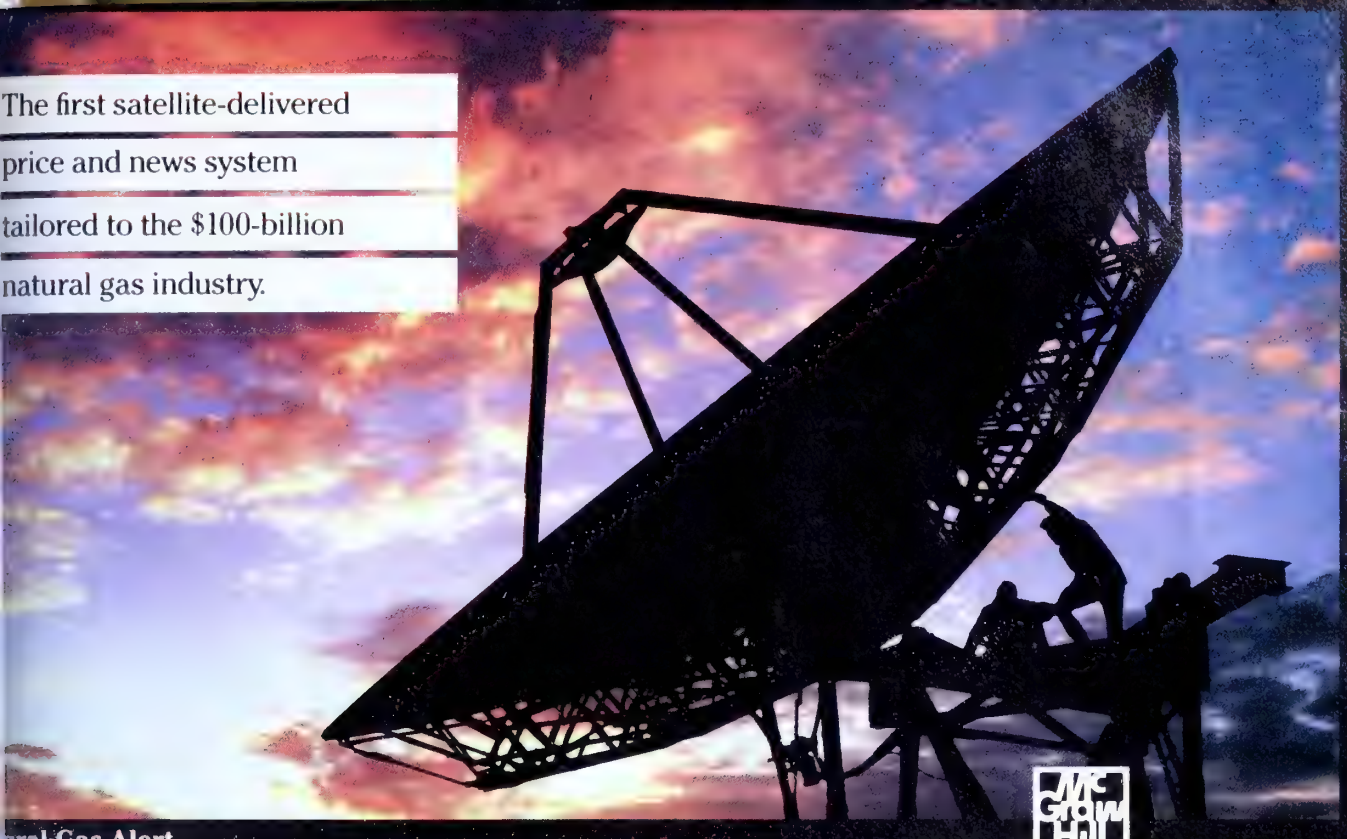

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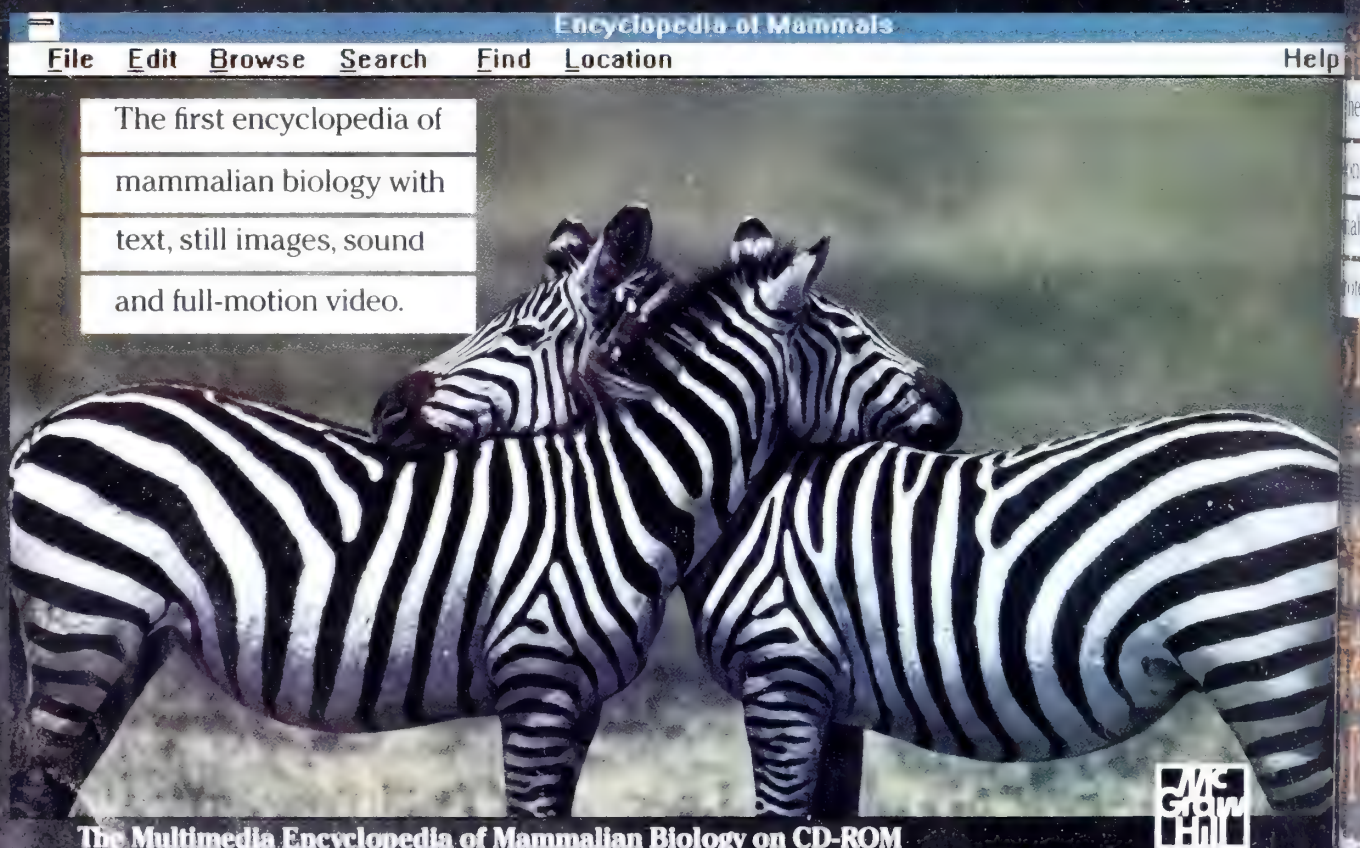

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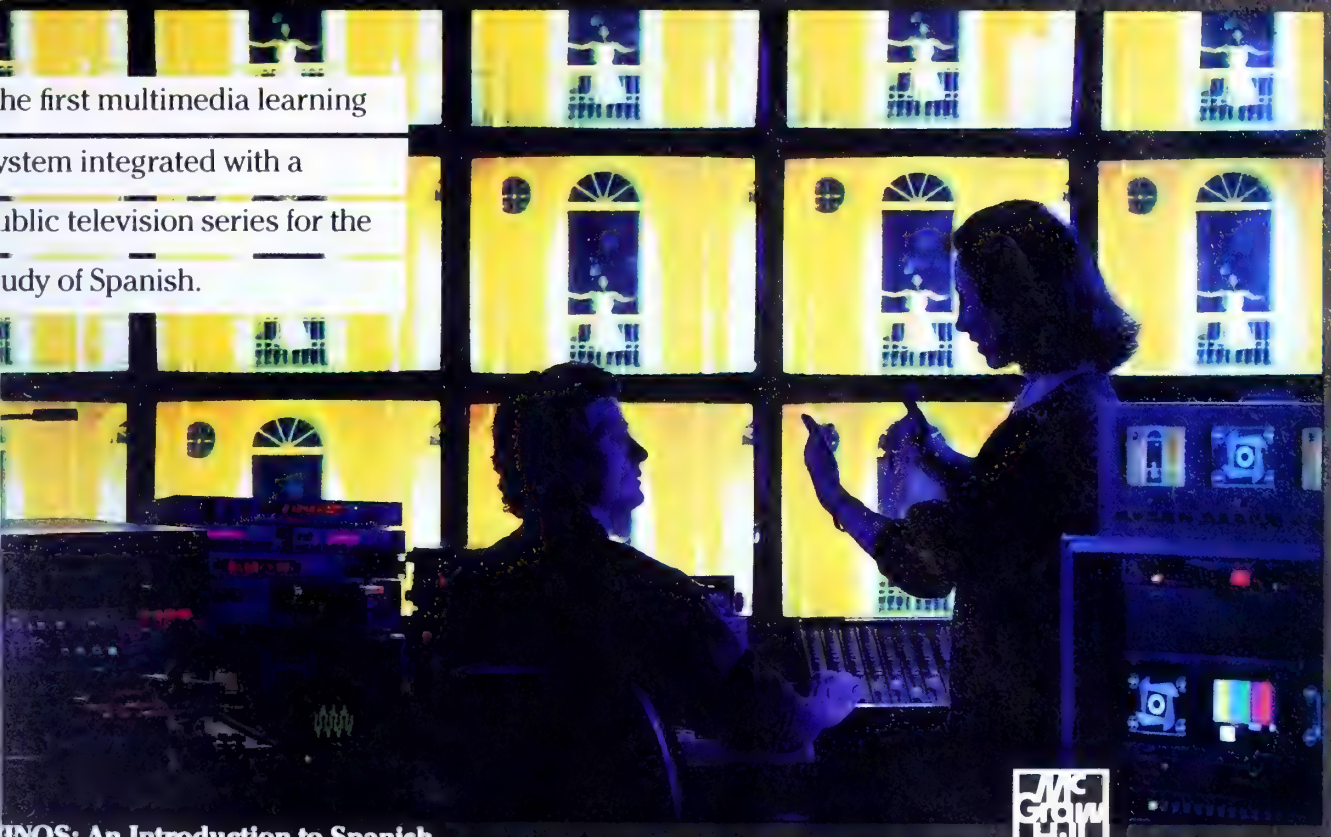
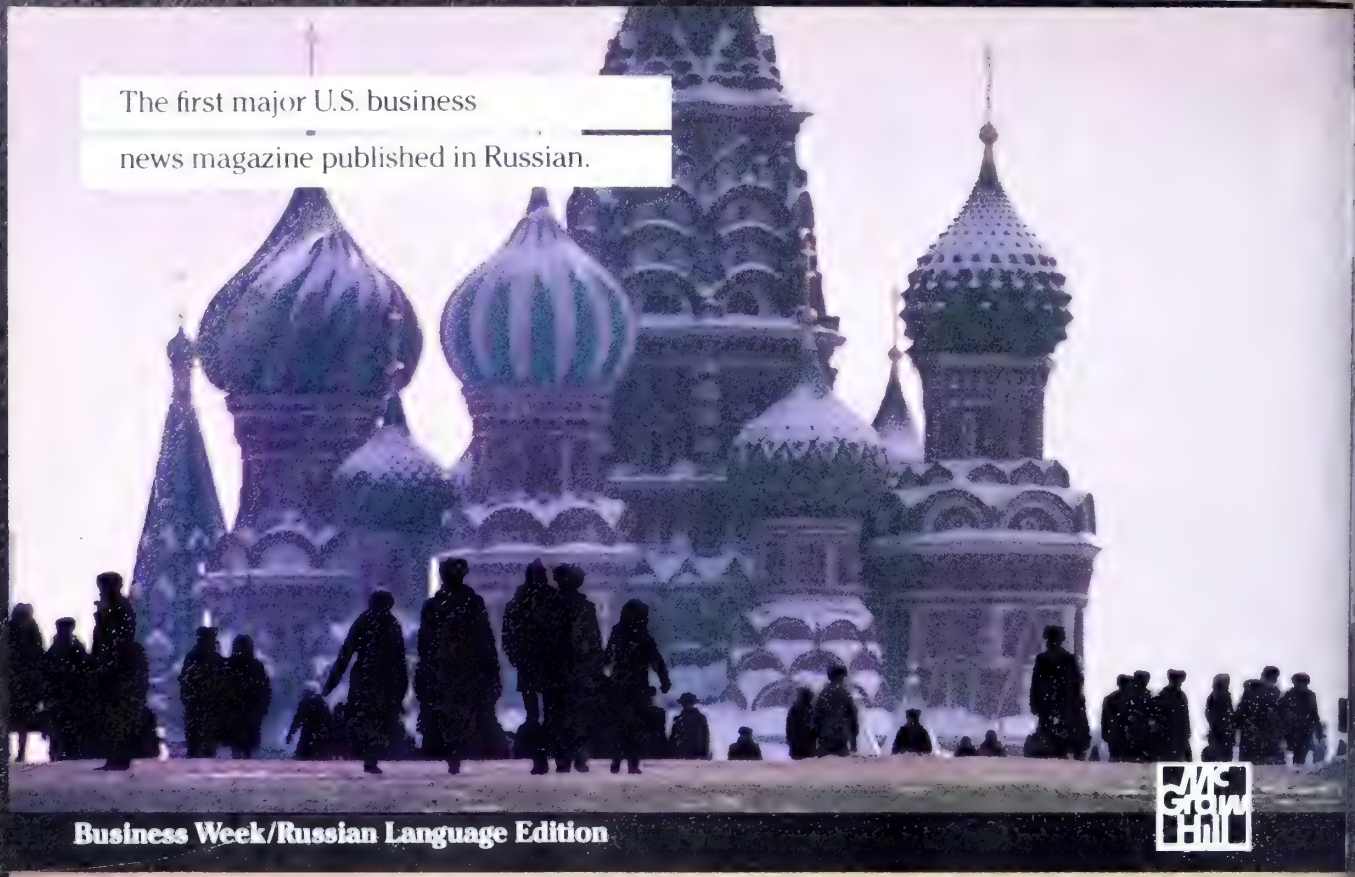


INOS: An Introduction to Spanish

International's Yen Market Analysis



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EDITED BY AMY DUNKIN

Collecting

I'LL TRADE YOU TWO MADONNAS FOR ONE MARILYN...

At some of Herman Darvick's recent auctions in New York, a campaign poster signed by Bill Clinton and Al Gore commanded $770, an autographed photo of blues singer Billie Holiday fetched $1,540, and a piece of paper signed by Marilyn Monroe as "Mrs. Joe DiMaggio" sold for $1,430. Then there was the beeper contract inked by Amy Fisher, a.k.a. "Long Island Lolita": Bidders lifted its price to $1,430.

Hobbyists are shelling out big bucks for practically anything signed by living or deceased luminaries. Many collectors stick to one category, such as Nobel prize winners or aviation aces. For others, the thrill is making contact, however briefly, with celebrities of any stripe. Pen at the ready, these are the autograph hounds who stalk the famous outside stage doors and at ballparks.

Autograph values adhere to a pecking order. At the bottom is a lone signature on a scrap of paper. Put the same signature on a photograph, and the price goes up. Put it on an important typed letter or document, and it brings more still. A noteworthy manuscript written entirely in the hand of the celebrity generates top dollar.

"Content in autographs is equivalent to location in real estate," says Bob Erickson, president of the Universal Autograph Collectors Club (UACC). At a Sotheby's sale in December, a page from an 1857 handwritten speech by Abraham Lincoln that contains the phrase "a house divided against itself cannot stand" went for $1.54 million; a document signed by Lincoln appointing an assistant paymaster in the Navy brought just $3,850. The Civil War period remains a hotbed for collectors. The Robert F. Batchelder catalog (215 643-1430) features an 1860 acrostic poem by Lincoln assassin John Wilkes Booth to actress Mary White. Price: $35,000.

Button Gwinn

The time frame in which a notable personality signs a paper is critical to its value. Signatures of all U. S. Presidents are in demand, but especially so are the ones they signed while serving as Commander-in-Chief. And an athlete's autograph carries a higher value if it was inked during active playing days.

TOGETHER IS BETTER. Sometimes, autographs are worth more in tandem. Collectors would love to get Lucille Ball with Desi Arnaz (they rarely signed their complete names together). New York attorney Bob Bennett, a seeker of movie-star and cartoonist autographs, figures his photo still from *Mr. Smith Goes to Washington*, signed by director Frank Capra and stars Jimmy Stewart and Jean Arthur, is worth $300 to $400.

Some autographs a scarce, it doesn't matter the ink dried. A bona fi liam Shakespeare signat valued at more than $ lion; the few known exa are in museums. Americ tory collectors covet an in the hand of Button nett, who was killed in not long after lendi name to the laration of Independen scarce Gwinnett letter ued at $165,000, says *The Guide To Autographs*, lished in 1991 by Georg Helen Sanders and Ralp erts ($21.95, Wallace-stead Book). The sam thors, who are updati general guide, put tog the 1994 edition of *The ers Price Guide To Spor tographs* ($12.95, Scott P ing). Before buying or s compare prices in guid check with different dea

Autographs will typ rise in value when a f person dies. At that poi more of the celebrity's writing samples you ha better. As with any c ible, condition is criti brittle document or a cr photo detracts from a ture's value. The acid c of most paper manufac in the mid-19th centur cause it to deteriorate bara Pengelly, a Fort ington (Pa.) dealer (21 5646), claims she will de any items she sells.

Of course, an auto will be worthless if it the genuine article. An eries are only part problem. Many celebriti

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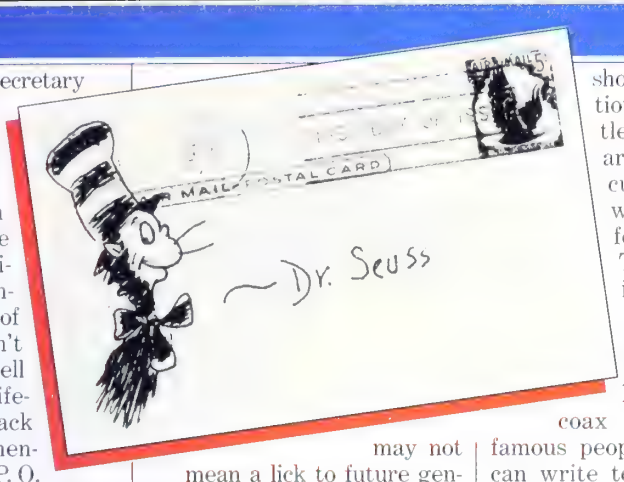
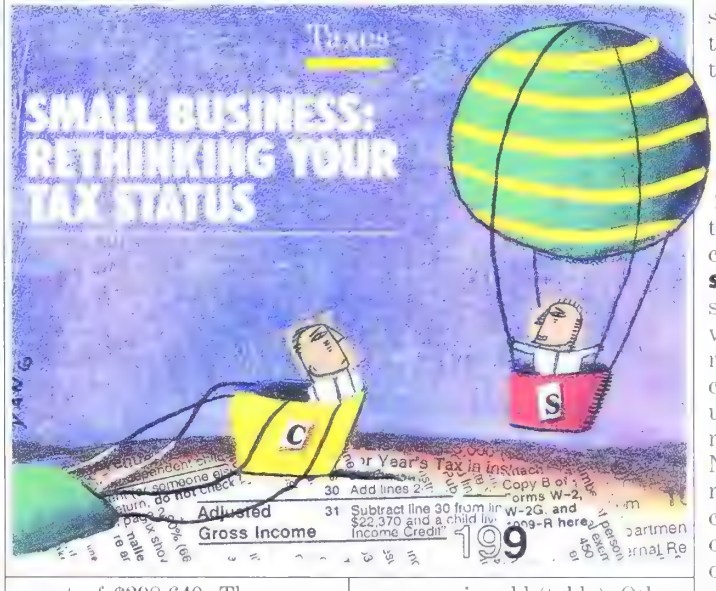


may not mean a lick to future generations. "You don't know if Madonna is going to be like Marilyn Monroe," says Steve Nowlin, owner of History Makers, a dealer in Indianapolis (800 424-9259). These days, some Madonna signatures go for about $200 and up.

Fans who line up to pay for an athlete's signature at a card show should be cautious. Mickey Mantle and Pete Rose are establishing current prices when they charge for signatures. They're also flooding a market that ultimately thrives on scarcity.

GOOD LUCK. Collectors can often coax signatures from famous people by mail. You can write to actors or ballplayers in care of the studio or the team they play for, though your chances of getting back an authentic signature are slim. You may have better luck if you can obtain a home address. Hobbyists with personal computers post addresses of famous people in the collectibles forum on CompuServe, the on-line service. (They also use the forum to peddle signatures.) Collectors can sometimes find addresses in *Who's Who* or *Celebrity Register. Pen and Quill*, which is sent to UACC members, also lists addresses; a recent issue featured addresses for the three surviving Beatles, Arnold Schwarzenegger, and Supreme Court Justice David Souter.

You can improve your odds of getting a legitimate handwritten response by writing a provocative letter. If you've got a ticket stub, photo, or program from a celebrity's performance, you might send that along to have it signed, if you're willing to risk losing the item. Get a response, and you may have created your own valuable little piece of history. *Edward Baig*



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ay 39.6%, or
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$660,000, for
a net of $398,640. The owner could reduce the tax bite by leaving some profits in the corporation, but there are limits on how much.

The single tax of S corps can also save money when the company is sold (table). Other pluses: S corps can often pass losses—deductible going back or forward three years—to shareholders. And interest incurred to buy S corp stock is deductible as a business expense. S corps can also use liberal accounting methods, and management compensation is less likely to be disallowed as unreasonable by the Internal Revenue Service.

S corps do have their limits. They're restricted to 35 shareholders—individuals, estates, or certain trusts; they can issue only common stock; they can't wholly own subsidiaries; and fringe benefits are taxable to shareholders who own more than 2% of the stock. Also, state tax compliance is more complicated.

SPECIAL PENALTY. If you're just starting out, most experts advise filing for S corp status right away. Most existing S corps should keep their status, says John Evans, a partner at Arthur Andersen in New York. But sometimes, it makes sense to switch. If the company is strapped for cash or unable to disburse dividends, converting to C status means paying only 34%. Owners dropping S status should first distribute earnings they have paid taxes on but have left in the company, says Mary Smalligan, director of tax services to closely held companies at Deloitte & Touche. Otherwise, they must pay out earnings in cash within the next year.

While it's extremely easy to switch to C, it's hard to go the other way, says Smalligan. C corps switching to S may be subject to prohibitively expensive taxes. With S corp status, the status quo is usually better. *Pam Black*

HOW S CORPS PAY WHEN YOU SELL

	C Corp	S Corp
GAIN ON SALE OF ASSETS	$3,000,000	$3,000,000
CORPORATE TAX (34%)	–1,020,000	NA
DISTRIBUTION TO SHAREHOLDERS	1,980,000	3,000,000
INCOME TAX (39.6%)	–784,080	–1,188,000
NET AFTER-TAX	$1,195,920	$1,812,000

NA=Not applicable

DATA ARTHUR ANDERSEN

Electronics

A TINY TAPE PLAYER WITH DIGITAL SOUND

The portable stereo unit that plays Philips Electronics' new digital compact cassettes (DCCs) finally made it into the stores this month. A car cassette/radio system is due in October. Should you care?

If you're interested in compact-disk-quality sound in easy-to-handle cassette form and you have a large collection of same-size analog tapes, the DCC 130 is a product worth considering. For one thing, DCC offers a much cleaner, crisper sound compared with chrome analog tape—as I discovered when Philips' senior product manager Gerry Wirtz in Eindhoven, the Netherlands, asked me to listen to both versions of Robert Cray's bluesy album *Midnight Stroll*. And its compatibility with regular cassettes gives it an edge over its competitor, Sony's portable MiniDisc player, which won't take your standard CDs.

Sony promotes MiniDisc as a sturdier portable format, given tape's propensity to stretch, jam, or break. But DCC cassettes have a slidable protective metal cover over the tape opening that should eliminate many analog drawbacks. It does take four seconds longer to move from track to track compared with MiniDisc. But I find cassettes easier to handle on the run than fingerprint-sensitive discs.

Philips' new DCC 130 unit also plays old analog tapes

DCC technology has been available in larger, more expensive home units since last Christmas, but the format has yet to catch on. Philips believes the pocket-size units will have wider appeal, despite a suggested retail price of $450—comparable with the MiniDisc player, but much stiffer than a high-end Sony Walkman at about $200.

The bump-proof DCC player weighs 1.1 pounds, about the same as a portable CD system, and comes with an AC adaptor/recharger and a 4.7 volt rechargeable nickel-cadmium battery that runs for three hours. Versions licensed by Technics and Panasonic will also be sold. About 600 prerec DCC titles are available i U. S. now for $16 each.

DCC portable stereos playback capability on version that can r blanks—$9.99 for a 75-m tape, $5 less than blank Discs—is due next yea need to wait that long f DCC car unit. It will ret less than the $1,000 ch in Europe. *Patrick*

Smart Money

HEALTH-CARE STOCKS: NOT FOR THE FAINT OF HEART

President Clinton's long-anticipated health-care reform package will be officially unveiled on Sept. 22, but health-care reform—and the accompanying volatility in medical and related stock prices—have been with us for a while. Analysts figure the proposed plan will just reinforce trends toward consolidation and cost containment that are already well under way, but they expect stocks to continue on a roller-coaster ride while a bill is hammered into law.

In the past few weeks, the massive price swings that rocked the industry in February have returned. "There is a statement a day that is directing stock prices for that day," says Joanne Soja, manager of Putnam Health Sciences Trust.

WORTH WATCHING. But many money managers think the sector is close to bottoming out and that plenty of stocks are well worth watching. So the next few weeks could provide excellent opportunities to buy. "There have been days when these companies have really tanked, and if you bought, you would have done really well," explains Geoffrey Harris, an analyst at Smith Barney, Shearson.

For health-care services stocks, the trick is to find companies that dominate their market. There is overcapacity in in-patient rehabilitation and psychiatric care, says John Hindelong, an analyst at Donaldson, Lufkin & Jenrette Securities. But nursing homes and acute-care hospitals that can contain costs will benefit from demographic trends. Hindelong recommends Healthtrust, a hospital operator that has a very low price-earnings ratio of about 13 for a company that is expected to grow more than 15% a year. A favorite nursing-home pick is Health Care and Retirement, which is expanding and has occupancy rates above 90%.

Many analysts also see opportunities with managed-care companies, such as health- mat nance organizations (HM and preferred provide ganizations (PPOs). Harri vors Intergroup Health United HealthCare, and entry, which are expan in cities such as St. L and Atlanta, where the room for enrollment gro

MEDICAL HEADHUNTERS. panies that act as ser subcontractors to health- providers also stand to b fit from reform. Stuart E man of A. G. Edward Sons likes Coastal Health Group, which recruits p cians for hard-to-fill posit in hospitals and handles ministrative duties for n cal staff. Coastal saves vidual hospitals m through nationwide rec ing and administrative ec mies of scale.

But if you plunk money down now, be pared to take hits on a to-day basis. The progr for Clinton's health-re proposals will take mont become clear. *Amey S*

THE PROS' TOP PICKS

Company	Stock price Sept. 13, 1993	1992 Earnings per share	Estimated 1993 EPS
COASTAL HEALTHCARE	27	$.87	$1.08
HEALTH CARE AND RETIREMENT CORP.	19¼	.94	.99
HEALTHTRUST	21	1.56	1.66
UNITED HEALTHCARE	55	2.00	2.25

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Autos

RENTING A CAR? BETTER CHECK YOUR COVERAGE

If you're planning to rent a car, review your insurance before you decline those optional coverages at the rental counter. In more than half the states, one or more companies, including Alamo, Avis, Budget, Hertz, and National, recently changed their rental contracts to make your personal auto-liability policy the first to pay in case of an accident.

If you don't carry automobile insurance because you don't own a car, you have little choice. You must buy the rental company's daily liability coverage of $1 million or risk financial ruin if there is a serious accident. Unless you rent from a company that still assumes primary liability in a given state, a plaintiff will sue you first. If the claim is satisfied from your assets, the rental company is off the hook. And even in states where the rental-car company remains first in line, the state-mandated liability coverage is still only $30,000—peanuts if you hurt someone in an accident. For a claim above that amount, the driver's own insurance or assets must be exhausted before the injured party can recover more from the rental company.

ON THE ROAD AGAIN. If you don't own a car but rent frequently, ask your agent about nonowner auto insurance. It can cost about $300 per year for $1 million in liability protection and also covers collision damage to the car.

But even having personal auto insurance doesn't necessarily mean it extends to rental cars. Find out by asking your insurance agent. And don't settle for a verbal answer; ask him or her to circle the car-rental portion of the policy. In most cases, your automobile policy will provide liability coverage if you rent a car for personal use within the U.S. and Canada—but not if you drive abroad. And chances are the coverage is limited to $300,000, so consider buying a $1 million umbrella policy for about $100 per year if you have significant assets to protect.

Unlike liability, collision damage has never been the responsibility of the rental-car companies. And only about half of personal auto policies extend collision coverage to rental vehicles. "Collision always used to be transferable" to rental cars, says Charlotte Edelstein, a claims adjuster with H&R Phillips, an insurer in New York. "But that has eroded over the years."

To be safe, you must have the right private auto policy, buy the collision damage waiver at the rental counter for about $10 a day, or use a credit card that offers collision protection. All American Express and most Gold MasterCard and Visa cards provide collision protection when the card is used to rent the car.

When you initial the box to decline the collision damage waiver at the counter, here's what you are signing: "You are responsible for the cost of repair or replacement of the value of the vehicle, plus loss of use, towing, storage, impound fees, and an administrative charge." A key phrase is "loss of use," which refers to the income the rental company loses on the car while it is being repaired. Your credit card may cover that, but your personal auto insurance probably won't. So if you're in an accident, you could be out of pocket for your deductible—$250 or $500 or perhaps an additional $500 for loss of use.

SOBERING. If you're traveling on business, your employer is probably picking up the insurance when the company travel agent books the rental car. But if you reserve the car yourself, buy the extra liability and collision coverages at the rental counter and let your employer reimburse you. Not all personal auto-insurance policies would cover you if you get into an accident while on a business trip.

If you need motivation to mind your rental insurance, here's a sobering thought. The odds of cracking up a rented vehicle are much greater than they are when you're driving your own car. "Forty percent of our car rental fleet is damaged each year in accidents," says Joe Ruiz, a spokesman for Hertz. "You're unfamiliar with the car, you don't know the area, you're ogling the sights, your kids are screaming in the back seat, and boom, you run into something." So make sure you're properly insured, or you could be through your bank account too. *Stuart Weiss*

Words Moving

■ **POWER GUIDE.** *The Almanac of American Politics 1994* contains biographies, election results, key votes, and interest-group ratings for everyone in Congress. Authors Michael Barone and Grant Ujifusa also analyze the 50 state governors and top members of the Clinton team. The new softcover edition ($48.95) is available at bookstores or by phoning the *National Journal* (800 [illegible]).

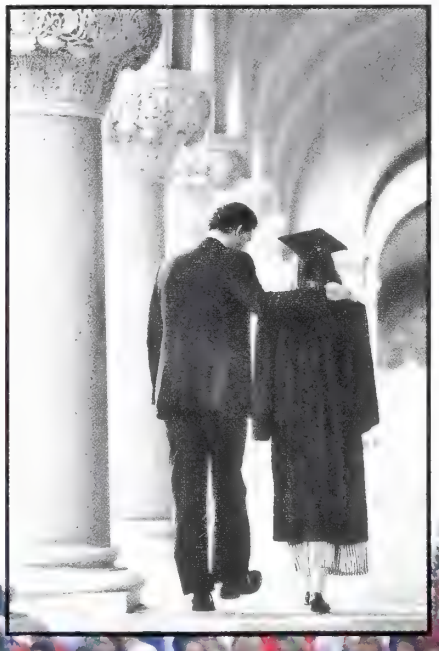
■ **MONEY ART.** Artistic impressions of money are on exhibit in Washington, coinciding with the International Monetary Fund's annual meeting. Featuring a silk-screen of dollar signs by Andy Warhol and the works of 29 other artists, the show runs Sept. 18 to Oct. 16 at the Nancy Drysdale Gallery, 2103 O St. N.W.

■ **KID FINANCE.** Next time your children get a check or savings bond, give them a few dollars to spend right away. Some instant gratification will make saving more acceptable. That and other tips can be gleaned from Liberty Financial's *Young Investor Parents Guide*. The free 50-page booklet covers topics such as the value of money, young entrepreneurs, and planning for college. Call 800 403-KIDS.

ho will win at THE TOUR Championship? Kids from the Bay Area — that's who!

THE TOUR CHAMPIONSHIP

REV. SCORE		HOLE	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18
	LEADERS	PAR	4	4	4	5	4	3	4	4	3	5	4	4	4	4	3	5	3	4
8	AZINGER		7	6	6	7	7	7	7	6	7	7	7	7	7	7	7	9	9	
5	HUSTON		5	4	5	6	4	4	4	4	4	5	4	4	4	2	2	2	2	
2	JANZEN		2	2	3	3	3	3	4	4	3	3	3	3	4	4	4	5	5	5
2	PAVIN		2	3	2	3	3	3	3	2	3	3	4	4	4	4	4	5	5	
3	FORSMAN		3	3	3	4	3	3	3	2	2	2	2	2	2	1	1	1	1	
2	HAAS		1	1	1	1	1	E	E	E	E	E	1	1	1	E	E	1	1	E
2	FROST		2	1	1	1	1	1	1	E	E	1	1	1	1	1	E	1	1	E
1	FLOYD		1	1	1	E	E	1	E	E	1	2	2	2	2	2	1	1	1	1
2	CLEARWATER		2	2	2	1	E	E	E	E	1	E	E	E	1	1	E	1	2	2
*	COUPLES		3	3	2	2	3	3	3	3	3	3	2	1	1	E	E	1	1	



he grand finale of the 1993 PGA TOUR season ill be played in the Bay Area in October with ie top 30 players on this year's money list ompeting for the prestigious title. But the al winners of this season-ending tourna- ient are kids.

he San Francisco Chronicle and THE TOUR hampionship have created a program called outh Volunteers in Action. Twenty high school students each will receive a $5,000 scholarship to attend college. The requirements are simple: at least four weeks of volunteer work with a Bay Area nonprofit community charity, a 750-word essay about that volunteer experience and a 2.75 high school GPA.

Net proceeds from THE TOUR Championship help support this program, along with other charities in the San Francisco area.

THE TOUR CHAMPIONSHIP

October 25–31, 1993

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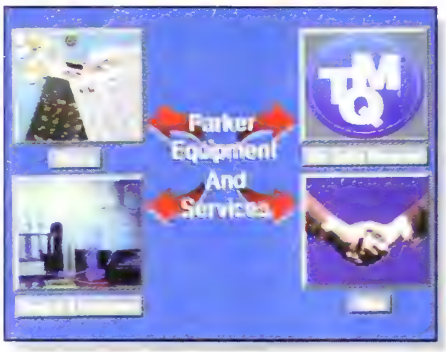

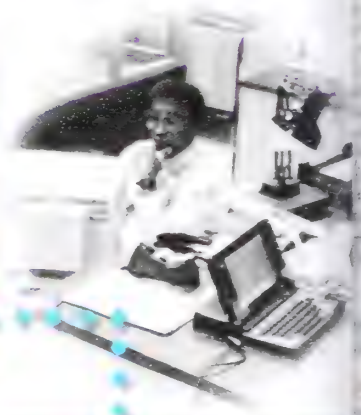

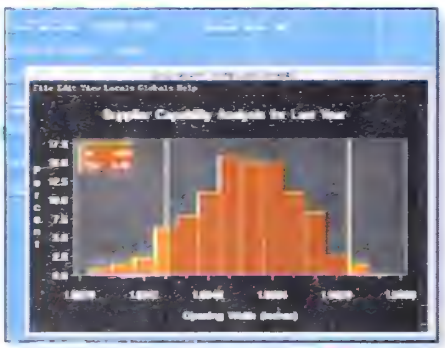

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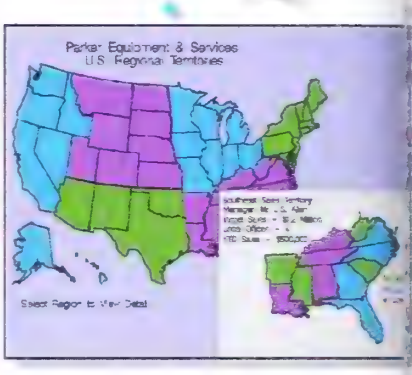

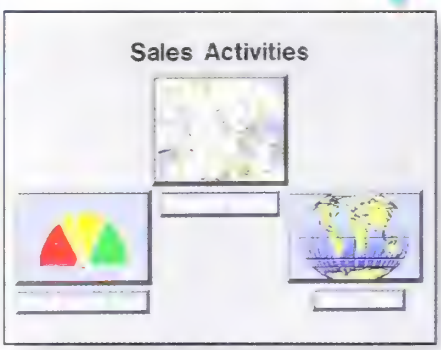

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TARY

ıals on inflation pum-
financial markets. Oil
vere big losers on Sept.
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4, the consumer price in-
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d. Yields of 30-year
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5, as a result. The Dow
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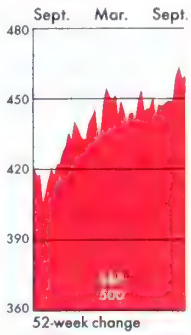
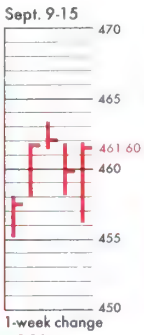
STOCKS

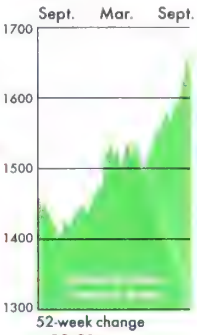




52-week change **+9.9%**

1-week change **+1.1%**

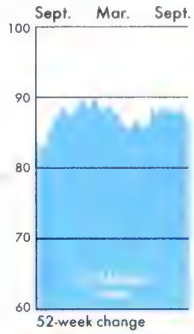
BONDS

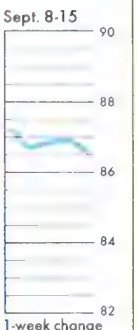


52-week change **+12.2%**

1-week change **−1.4%**

THE DOLLAR





52-week change **+3.5%**

1-week change **−0.7%**

KET ANALYSIS

CKS	Latest	% change Week	% change 52-week
S INDUSTRIALS	3633.7	1.2	9.5
OMPANIES (S&P MidCap Index)	171.4	0.8	16.9
MPANIES (Russell 2000)	245.3	1.0	27.3
ANIES (Russell 3000)	266.3	1.1	12.6

I STOCKS	Latest	% change (local currency) Week	% change (local currency) 52-week
FINANCIAL TIMES 100)	2989.4	−1.5	25.7
KKEI INDEX)	20,947.8	0.1	16.7
(TSE COMPOSITE)	3967.9	0.4	14.9

FUNDAMENTALS	Latest	Week ago	Year ago
90-DAY TREASURY BILL YIELD	3.03%	3.02%	2.95%
30-YEAR TREASURY BOND YIELD	5.98%	5.86%	7.33%
S&P 500 DIVIDEND YIELD	2.72%	2.73%	2.93%
S&P 500 PRICE/EARNINGS RATIO	23.9	23.6	24.7

TECHNICAL INDICATORS	Latest	Week ago	Reading
S&P 500 26-week moving average	448.9	448.5	Positive
Stocks above 26-week moving average	60.8%	62.9%	Neutral
Speculative sentiment: Put/call ratio	0.49	0.44	Positive
Insider sentiment: Vickers sell/buy ratio	2.55	2.43	Negative

STRY GROUPS

BRIDGE INFORMATION SYSTEMS INC.

EEK LEADERS	% change 4-week	% change 52-week	Strongest stock in group	% change 4-week	% change 52-week	Price
JNICATIONS EQUIPMENT	9.8	13.2	NORTHERN TELECOM	16.9	−21.1	27 5/8
	8.6	−10.6	BORDEN	22.5	−35.2	18 3/8
S AND LOANS	8.4	19.3	GREAT WESTERN FINANCIAL	15.8	26.2	19 1/4
WARES	8.3	9.3	PREMARK INTERNATIONAL	13.2	90.9	65 3/8
AINMENT	7.4	18.1	PARAMOUNT COMMUNICATIONS	18.0	39.1	63 1/8
EEK LAGGARDS	**% change 4-week**	**% change 52-week**	**Weakest stock in group**	**% change 4-week**	**% change 52-week**	**Price**
AL MANAGEMENT	−14.8	3.2	NATIONAL MEDICAL ENTERPRISES	−32.6	−44.1	7 3/4
MINING	−13.4	29.3	ECHO BAY MINES	−18.5	59.6	9 3/8
D GAS DRILLING	−9.9	16.5	ROWAN	−20.3	1.6	7 7/8
	−9.5	−11.1	CYPRUS MINERALS	−11.7	−21.8	24 5/8
MENTATION	−7.9	17.8	HEWLETT-PACKARD	−8.6	19.8	68 3/4

UAL FUNDS

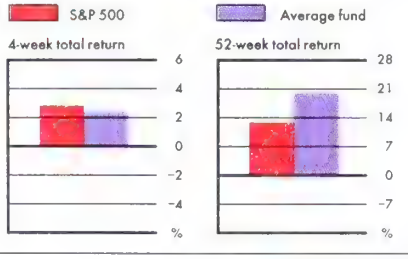
MORNINGSTAR INC

S total return	%
E-STATE STREET EQUITY INVESTMENT A	15.4
ER LATIN AMERICA	14.2
FE-STATE STREET CAPITAL APPR. A	11.5

otal return	%
TON STRATEGIC INVESTMENTS	86.2
GROWTH	82.8
ON OPPORTUNITY A	63.2

LAGGARDS Four-week total return	%
MFS EMERGING GROWTH CLASS A	−19.2
UNITED SERVICES GOLD SHARES	−11.2
LEXINGTON STRATEGIC INVESTMENTS	−10.7

52-week total return	%
FIDELITY SELECT MEDICAL DELIVERY	−15.1
INVESCO STRATEGIC HEALTH SCIENCES	−13.7
MONITREND GOLD	−11.5



TIVE PORTFOLIOS

DRI/McGRAW-HILL

mounts
it the present
$10,000
one year ago
portfolio

ges indicate
total returns

Foreign stocks	Treasury bonds	U.S. stocks	Money market fund	Gold
$13,724	**$12,251**	**$11,269**	**$10,225**	**$9,926**
−1.15%	−1.39%	+0.30%	+0.05%	−3.13%

this page are as of market close Wednesday, Sept. 15, 1993, unless otherwise indicated. oups include S&P 500 companies only; performance and share prices are as of market close Sept. 14. Mutual fund returns are as of Sept. 10. Relative portfolios are valued as of Sept. 14. A more detailed explanation of this page is available on request

SEALING THE PEACE WITH PROSPERITY

Building a lasting peace in the Middle East rests on building a lasting prosperity. While a handshake symbolizes the political mood of the moment, it may well take the invisible hand of the market to provide the economic foundation for political success. The accord between Israelis and Palestinians is a rare opportunity to remake the region's economies and generate growth to change people's lives. For too long, the Middle East has been home to archaic state-dominated command economies that stifled growth.

All across the region, large portions of the economy are controlled by political bureaucracies that protect the interests of their particular constituencies. Competition, market share, and profit are often unimportant. The danger is that, with new billions of aid money flowing into the region, this welfare-statism will be buttressed—to the detriment of the private sector. This is especially true in Gaza and the West Bank. Most of the money flowing in is controlled by local PLO cronies of Yassir Arafat. As political organizations, they operate much like local Democratic wards in Chicago, doling out aid dollars in exchange for political support.

Releasing the entrepreneurial power of local business is the key to growth in the Middle East. Palestinians, Jews, Lebanese, Syrians, and Egyptians are renowned for their entrepreneurial acumen when given the chance, in their own lands or overseas. So what is to be done? The U. S., Europe, and Japan should insist on a major role for the private sector. It would mean that funds flowing to the region should be used in part as seed capital.

In the end, investment by the millions of diaspora Palestinians and Jews—in Gaza, the West Bank, and Israel—is the most realistic way to generate new jobs. Privatizatio deregulation are almost certain to repatriate billions i ital, just as they did in Mexico and Argentina. In fact ing a leaf from the successful State of Israel bonds, th estinians should seriously think of floating "Arafat" bo their compatriots around the world to finance local gr

For too long, Middle Eastern societies have been int tional-aid mendicants. Now, local governments should couraged to build up capital markets to prepare for pri ing their economies. Wall Street investment houses coul their expertise and go one further: There are already that invest in Israeli companies. How about creating e ing-market funds for the Middle East as a whole?

To provide economies of scale, there should also be a for a Middle Eastern common market. The domestic ma of most of the Middle Eastern countries are rather sm first step could be an Israeli-Palestinian-Egyptian-Jord market, expanded later to include Syria and Lebanon. age down the road to other Mediterranean nations n economic sense. All this, of course, depends on Saudi bia's and the other Arab countries' lifting the economi bargo on Israel, which has hurt foreign investment. Wit new accords, the U. S. should make sure that the em ends immediately. Intel, Motorola, and other companies already set up operations in Israel. More are sure to f

The handshake between Yassir Arafat and Yitzhak is the chance of a lifetime for millions to leave behin culture of victimization. A strong private economy, inte ed across political boundaries and run by people doing ness with each other, is the best way to cement the p

HOW THE SOUTH IS RISING AGAIN

The transformation of the U. S. Southeast from an economic backwater to a job-creating juggernaut has been nothing short of astounding. Long dependent upon dirty, low-paying industries such as poultry, the region has become a magnet for foreign manufacturers seeking to establish beachheads in the U. S. With so many German companies in the Blue Ridge foothills of South Carolina, locals have begun calling one stretch of I-85 "the Autobahn."

The result: economies that are booming compared with many other regions. The New South's strategy for revitalizing itself holds lessons for America. While the Southeast's success is partly due to its historically cheap labor, low taxes, and few unions, major credit has to go to its homespun industrial policy. Innovative programs to train workers, adoption of advanced technologies, and heavy spending on basic infrastructure have all significantly boosted economic growth.

The key New South strategy has been to forge long-term relationships overseas. As far back as the 1950s, Southern leaders tirelessly dragged their trade missions around Europe and Asia where offices to promote exports were established. At first, this missionary work bore the smallest of

Southern political leaders persisted, however. They a ed a probusiness attitude that should appeal to every utive who has ever faced the indifferent—if not hostil titudes of typical government bureaucrats. Southern polit offered manufacturers guarantees for their investments were as close as possible to no-risk. They promised nev ployers that they would help recruit and train their work force for them at local schools. To streamline the cess of applying for various business permits and lice states also set up one-stop offices.

Partly because of the dollar's decline, the Southeast vestment is now paying huge dividends. Even though levels are creeping toward the national average, erasi cheap-labor advantage, foreign companies still flock t region, inspired by the favorable word of mouth from businessmen. BMW recently announced it is opening a million plant. The 2,000 jobs it will bring to Spartan S. C., are proof that the New South's business hospital working.

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LARS RAMQVIST, President and Chief Executive Officer, Ericsson.

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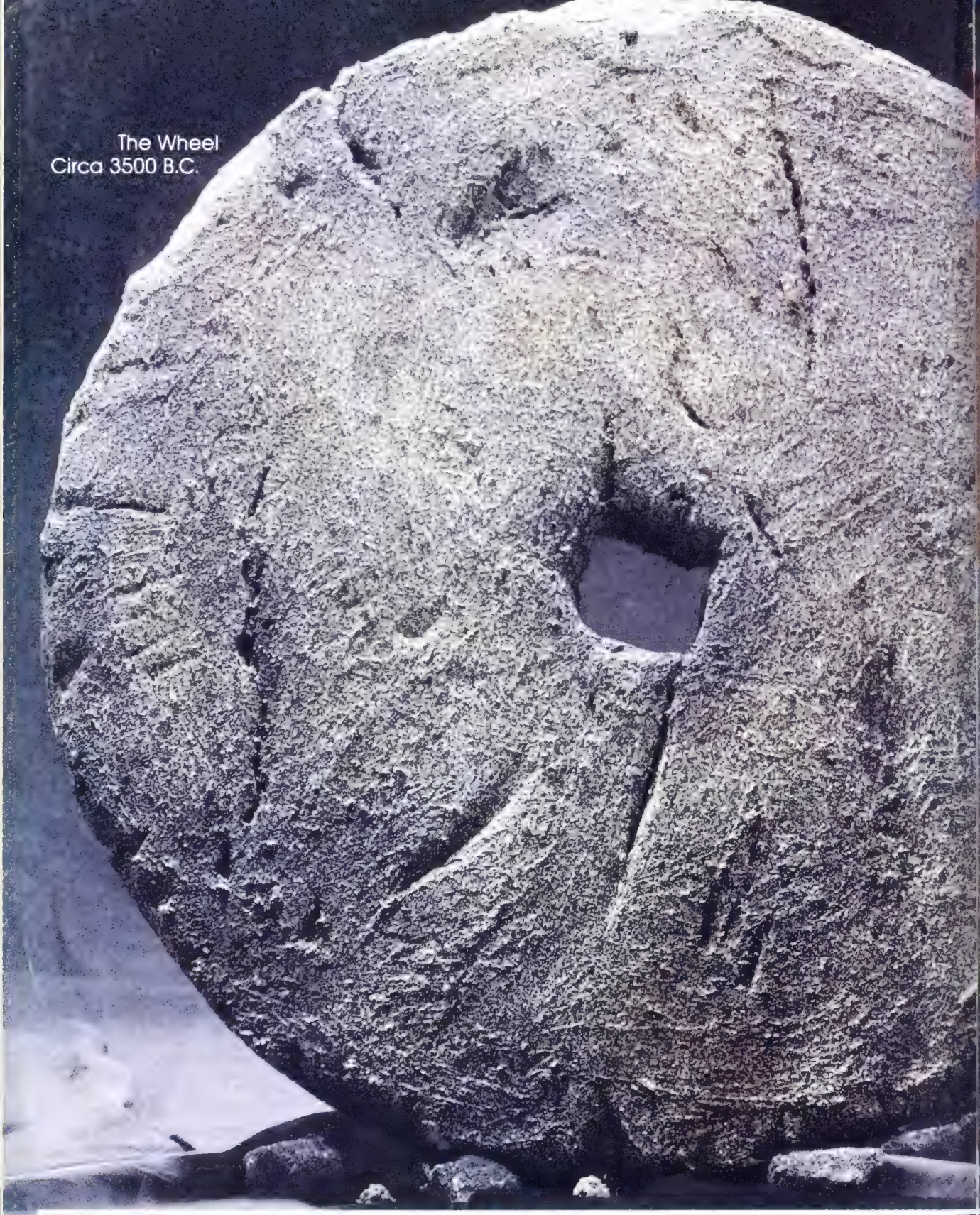

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GLOBAL FINANCE

BUNDESBANK

BusinessWeek

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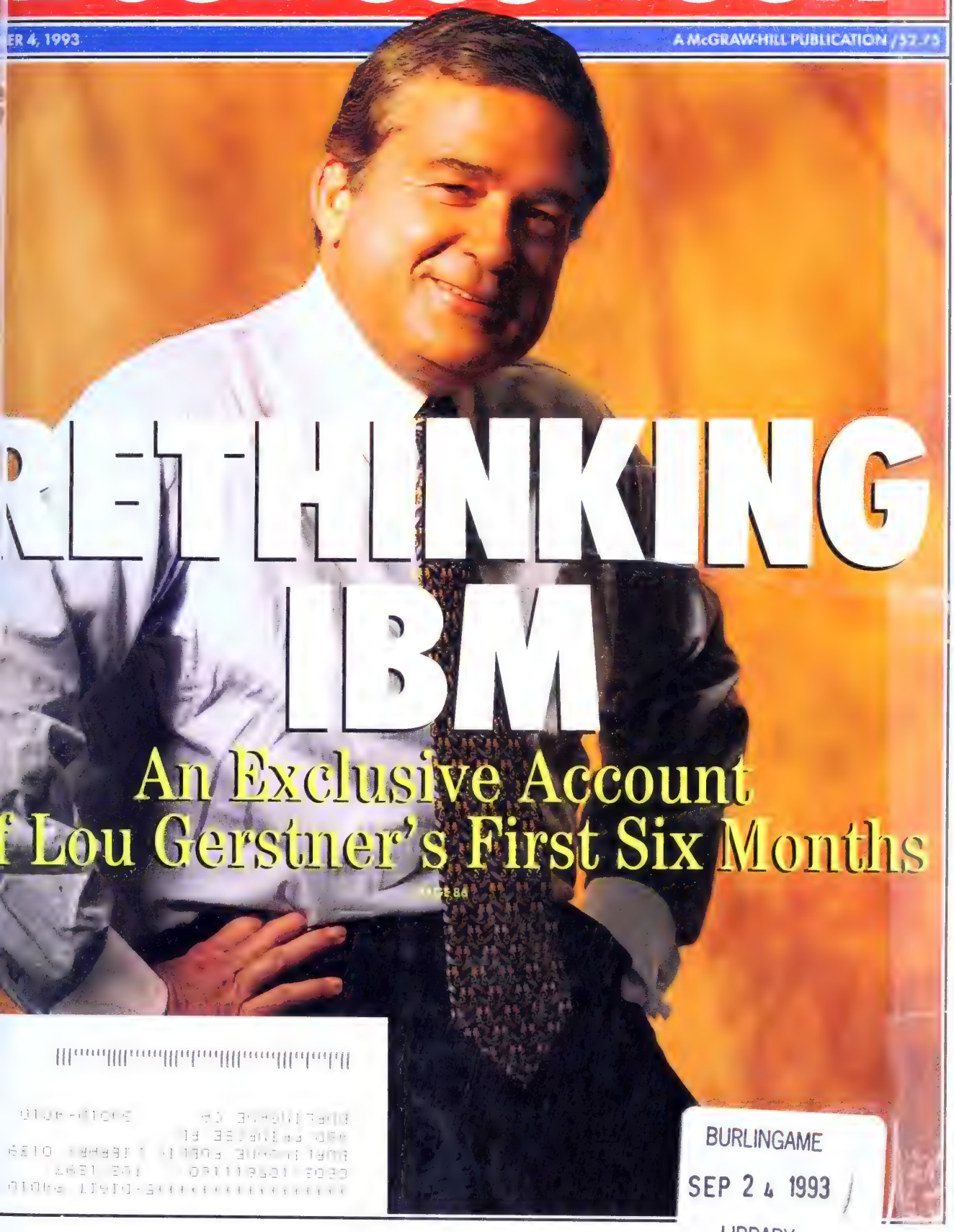

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cause we're building a reputation in America
on the reputations we've helped build for others.

Together with Sun Microsystems, we developed the RISC chip that brought mainframe power to desktop omputing. And helped make Sun the leading workstation manu-cturer worldwide. With U.S. regional Bell operating compa-s, we're revolutionizing commercial service by creating the world's switching system capable of handling voice, data and video over public network. We've built R&D and manufacturing facilities n California to Connecticut. Building on our reputation as the rld's second largest computer company. And creating advances om the smallest and lightest portable pen computers to some of the world's fastest supercomputers. We're cele-brating 25 years well-spent. Not so much on publicity as on products that create possibilities. So if you're looking for our name in the future, just look behind some of the biggest names in America.

FUJITSU

COMPUTERS, COMMUNICATIONS, MICROELECTRONICS

ROARING INTO THE

marketplace, Drago

bonds set Asia's capita

markets on fir

There are few markets that offer debt ers the kind of potential Asia Pacific does ay. Economies in the region are booming investable assets held by institutions and viduals are estimated to total some half a ion dollars.

At the same time, Asia's demand for d income offerings is strong and growing idly. Seeing this, issuers believed that it ght be possible to offer these securities ectly in the region.

ENTER THE DRAGON.

A new financial instrument was veloped: the Dragon bond. Targeted at an investors beyond Japan's borders, this urity is denominated in U.S. dollars, yen d other currencies, which allows Asian vestors to diversify their portfolios in reign currencies.

The enthusiastic response to the st offerings prompted major issuers rldwide to enter the market. In the st year alone, issuers raised over $2.5 billion in Dragon bonds. But equally important, this new security has enabled each issuer to demonstrate a commitment to the region, and raise its profile in the Asian investment community.

THE RESOURCES TO DEAL WITH DRAGONS.

As a leader in global debt underwriting, we worked with our clients to open up this new source of capital and create the market for Dragons. And today, with offices in Hong Kong, Singapore, Taipei, Seoul and Bangkok, Lehman Brothers is the leading underwriter of Dragon bonds in the marketplace.

From traditional financings to innovative new securities like Dragon bonds, we have the market intelligence, hands-on local experience and distribution strength worldwide to structure and place offerings smoothly.

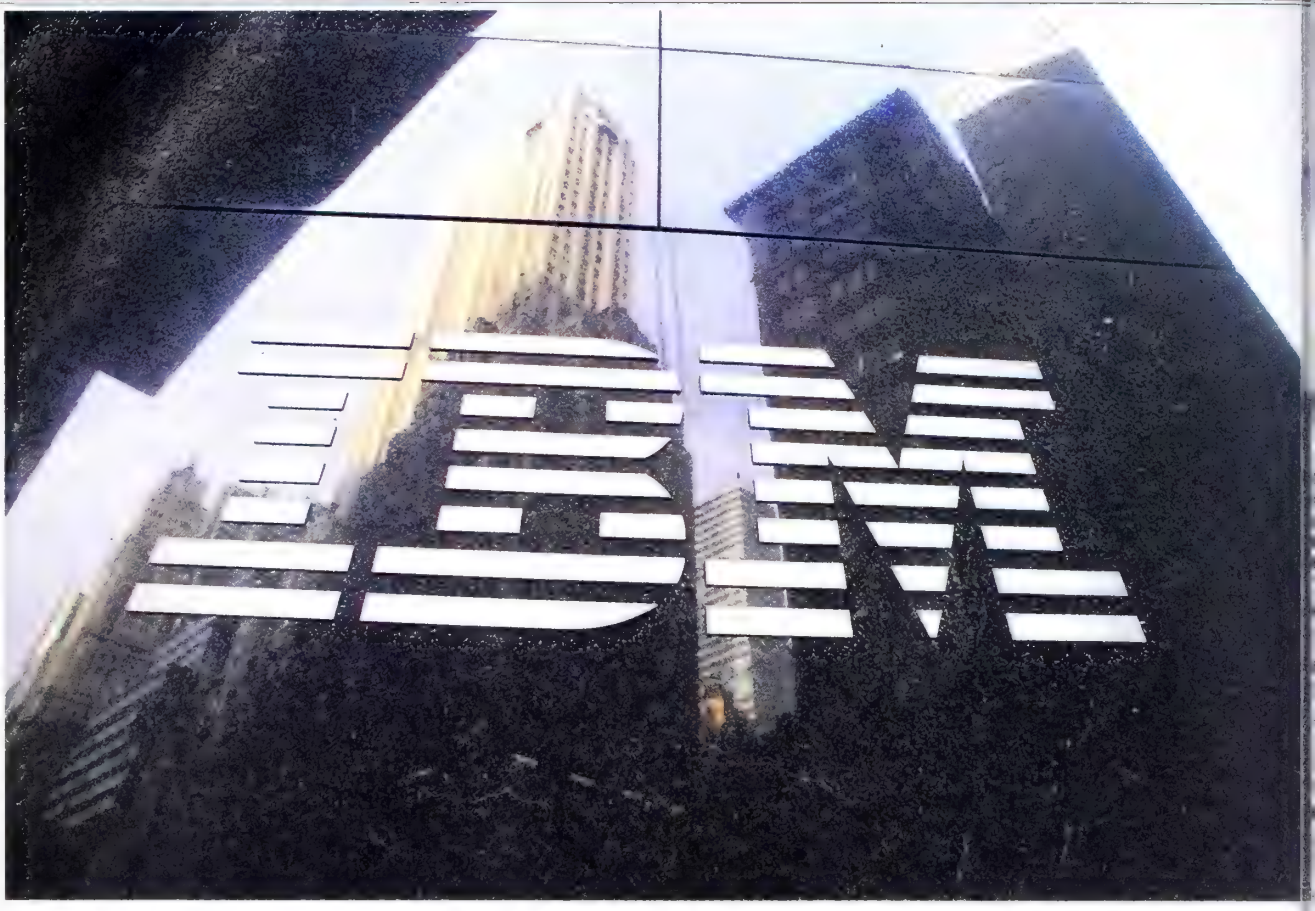
So, if you are interested in exploring fixed income opportunities in Asia or anywhere else in the world, call us. We'd like to be involved.

LEHMAN BROTHERS

NUMBER 3339

BusinessWeek

OCTOBER 4



THE $62 BILLION COMPANY LOU GERSTNER IS RUNNING IS DYSFUNCTIONAL, AND MANY DOUBT THAT HE CAN FIX IT. GERSTNER DOESN'T

Cover Story

86 RETHINKING IBM
In a series of exclusive interviews, Chairman Lou Gerstner talks about how he is tackling the toughest job in Corporate America. Gerstner still has critics, but in six months, he has reversed plans to split IBM into autonomous parts, set up task forces to explore growth opportunities, continued cutting costs, and begun to define a strategy based on the conviction that even knowledgeable customers need help sorting through the product maze

96 BITING THEIR NAILS
IBM watchers are still critical

Top of the News

26 A ND PARAMOUNT GOES TO...
The bidding war heats up as more media heavy hitters weigh in

28 HE WHO WOULD BE KINGMAKER
All roads lead to John Malone

29 SANDY WEILL'S CROWNING COUP
A Travelers merger gives Primerica a strong franchise and brand name

30 COMMENTARY
The Clinton health plan could stand a dose of reality

31 HEALTH REFORM AND THE POOR
Clinton's plan threatens funding for 1,400 community clinics

32 COMMENTARY
On the export front, the cold war is still raging

34 SORT OF MARCHING FOR NAFTA
The pact's lobby is rather ragtag, and its message isn't getting across

36 WILL FORD'S UAW DEAL HURT GM?
Not likely, despite the doomsayers

38 CHIAT/DAY'S NINE LIVES
You can't keep this ad shop down

38 NEW TREADS FOR NIKE
It's growing out of sneakers

40 IN BUSINESS THIS WEEK
Computervision, bid-rigging in Japan, Dick Markham, a well-placed pen, Novell vs. Microsoft, Anheuser

International Business

44 GERMANY
Can the Bundesbank reconcile th needs of inflation-plagued Germ and recession-wracked Europe?

50 JAPAN
Cheap imports from whiskey to computers are finally making th way to Japanese consumers

52 GAZA
Offering both promise and peril, will be reshaped by tricky bargai

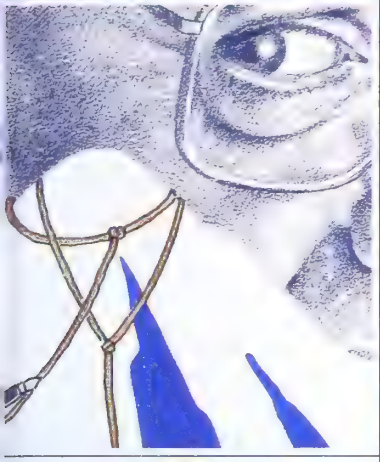
54 INTERNATIONAL OUTLOOK
Yeltsin is pushing all his chips into the pot

Economic Analysis

18 ECONOMIC VIEWPOINT
Becker: Down and out all over Europe—a lesson for America

22 ECONOMIC TRENDS
Savings from weather tracking, e wage-profit equation, interest ra and the G-7, bond mania

COVER PHOTOGRAPH BY JEFFREY NOWE. PHOTOGRAPH ABOVE BY LARRY FINK



SCALING MOUNT PARAMOUNT: BARRY & JOHN & TED & SUMNER & MARTY SCRAMBLE FOR A FOOTHOLD IN THE RACE TO CONTROL THE LAST INDEPENDENT HOLLYWOOD STUDIO

111 STEELY-EYED SURGEONS: NEW MACHINES SUCH AS ROBODOC, WHICH DRILLS ULTRAPRECISE HOLES FOR HIP REPLACEMENTS, PROMISE TO REVOLUTIONIZE SURGERY—AT A PRICE

44 THE MIGHTY MARK: THE '90s "SHOULD BE ABOUT GETTING BACK TO REALITIES," SAYS PRESIDENT TIETMEYER. THAT MEANS NO CHANGE IN THE HARD-MONEY PHILOSOPHY

BUSINESS OUTLOOK
First downs in the third quarter

COMMENTARY
The business cycle isn't dead —just resting

Government

WASHINGTON OUTLOOK
Spy vs. computer nerd: The fight over data security

The Corporation

REPAIRING XEROX
Three years into his tenure, CEO Allaire focuses on new products, new technology, and new markets

COLD SNAP AT ALASKA AIRLINES
Its heavy losses will mean cutting staff and trimming some frills

People

HIGHBROWS AND THE MAVERICK
It's unclear how drug giant Merck would mesh with Wygod's Medco

Finance

A RELAPSE FOR INSURERS?
Just when their managed-care programs were beginning to pay off, along comes reform

ARMORED AND DANGEROUS
The careless banks that used Revere to move and store cash got burned

ROBERT PLAN'S FRAUD SQUAD
The high-risk car insurer's tough scrutiny and tricks help trap cheats

104 INSIDE WALL STREET
Spelling Entertainment: Stay tuned
This stock is in the air
A brand new bag for a packager?

129 INVESTMENT FIGURES OF THE WEEK

Information Processing

106 PLUGGED INTO WIRELESS
Long a leader in analog telecom, Sweden's Ericsson now leads the cellular equipment market

108 CRAY EATS CROW
It swallows its pride and goes to parallel processing, joining rivals who were there long ago

80 IS MERCK READY FOR MARTY WYGOD? ITS TAKEOVER OF WYGOD'S MEDCO COULD LAND HIM IN MERCK'S TOP JOB. BUT HIS HARDBALL STYLE COULD SPELL BIG CHANGES FOR THE DRUGMAKER

Science & Technology

111 ROBOTS IN THE SURGICAL SUITE
Startups are building machines that perform some jobs far more accurately than any human doctor

116 SUPERTOMATOES THAT SHIP
Sun World is a leader in produce, using old-fashioned methods that don't monkey with genes

123 DEVELOPMENTS TO WATCH
Durable stained glass, rocket fuel, baby X-rays, microwave bonding, saving trees

Personal Business

124 ELECTRONICS: Digital assistants
INSURANCE: Saving on car coverage
SMART MONEY: Pension protection

Features

6 BUSINESS WEEK INDEX

7 READERS REPORT

10 CORRECTIONS & CLARIFICATIONS

14 BOOKS
Brodeur: *The Great Power-Line Cover-Up: How the Utilities and the Government Are Trying to Hide the Cancer Hazard Posed by Electromagnetic Fields*

127 INDEX TO COMPANIES

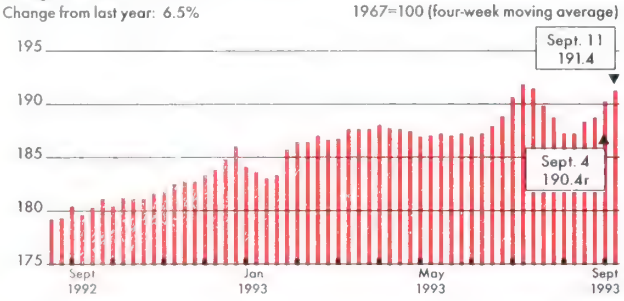
130 EDITORIALS
Health reform: Start bargaining
The Bundesbank must think globally
How to fire up the export machine

Week (ISSN 0007 7135) published weekly, except for one issue in January, by McGraw Hill Inc. Executive, Editorial, Circulation, and Advertising Offices 1221 Avenue of the Americas, New York, N. Y. 10020. criber rate: $46.95/year; Canada: CDN $69/year. Second-class postage paid at New York, N. Y., and at additional mailing offices. Postage paid at Montreal, P. Q. Canada Post International Publications ict Sales Agreement No. 246484. **Postmaster:** Send address changes to BUSINESS WEEK, P. O. Box 430, Hightstown, N. J. 08520.

BusinessWeek Index

PRODUCTION

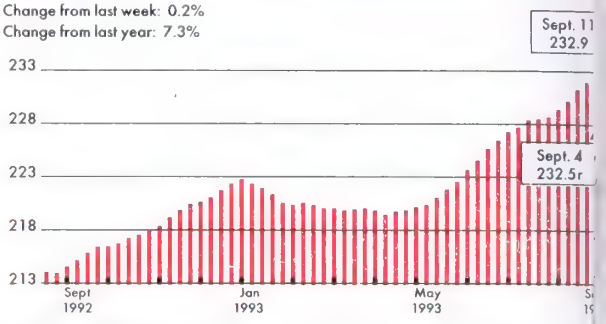
Change from last week: 0.5%
Change from last year: 6.5%



The production index rose in the week ended Sept. 11. Steel production gained, as did output of both autos and trucks. Production of coal, paper, and paperboard also scored increases. Lumber production rose strongly, and crude-oil refining edged higher. Electric power output and rail-freight traffic each declined. Before calculation of the four-week average, the index fell to 191 from 193.3, likely reflecting an overstatement of weakness during the Labor Day holiday.

LEADING

Change from last week: 0.2%
Change from last year: 7.3%



The leading index rose in the week ended Sept. 11. Supplying the lift: Bo yields continued their sharp decline. Real estate loans also picked up steam, and broad M2 money supply posted faster growth. Negatives for the week included drop in stock prices, following a steady runup. And materials prices fell at a mo rapid rate. Data for business failures and jobless claims were not available. Prior calculation of the four-week average, the index rose to 234.7 from 233.3.

PRODUCTION INDICATORS

	Latest week	Week ago	% Change year ago
STEEL (9/18) thous. of net tons	1,833	1,843#	10.6
AUTOS (9/18) units	112,938	85,920r#	3.5
TRUCKS (9/18) units	103,171	81,015r#	28.9
ELECTRIC POWER (9/18) millions of kilowatt-hours	59,090	59,477#	−2.4
CRUDE-OIL REFINING (9/18) thous. of bbl./day	13,852	13,826#	0.8
COAL (9/11) thous of net tons	17,528#	18,974	−17.3
PAPERBOARD (9/11) thous. of tons	795.9#	819.6r	−1.2
PAPER (9/11) thous. of tons	806.0#	828.0r	0.0
LUMBER (9/11) millions of ft.	389.2#	444.0	−2.4
RAIL FREIGHT (9/11) billions of ton-miles	19.4#	21.5	0.0

Sources: American Iron & Steel Institute, *Ward's Automotive Reports*, Edison Electric Institute, American Petroleum Institute, Energy Dept., American Paper Institute, WWPA[1], SFPA[2], Association of American Railroads

FOREIGN EXCHANGE

	Latest week	Week ago	Year ago
JAPANESE YEN (9/22)	106	106	121
GERMAN MARK (9/22)	1.63	1.59	1.49
BRITISH POUND (9/22)	1.52	1.55	1.70
FRENCH FRANC (9/22)	5.68	5.54	5.04
CANADIAN DOLLAR (9/22)	1.32	1.31	1.24
SWISS FRANC (9/22)	1.42	1.38	1.30
MEXICAN PESO (9/22)[3]	3.106	3.110	3.103

Sources: Major New York banks. Currencies expressed in units per U.S. dollar, except for British pound expressed in dollars

PRICES

	Latest week	Week ago	% Change year ago
GOLD (9/22) $/troy oz.	354.400	348.000	1.8
STEEL SCRAP (9/21) #1 heavy, $/ton	112 50	112.50	29.3
FOODSTUFFS (9/21) index, 1967=100	210.8	212.3	6.1
COPPER (9/18) ¢/lb.	89.1	90.5	−20.1
ALUMINUM (9/18) ¢/lb.	52 8	53.9	−9.4
WHEAT (9/18) #2 hard, $/bu	3 35	3.34	−5.6
COTTON (9/18) strict low middling 1-1/16 in., ¢/lb	54.23	53.55	−3.1

Sources: London Wednesday final setting, Chicago market, Commodity Research Bureau, *Metals Week*, Kansas City market, Memphis market

LEADING INDICATORS

	Latest week	Week ago	% Ch year
STOCK PRICES (9/17) S&P 500	460.36	458.60	
CORPORATE BOND YIELD, Aaa (9/17)	6.66%	6.51%	−
INDUSTRIAL MATERIALS PRICES (9/17)	94.7	94.9	
BUSINESS FAILURES (9/10)	NA	366	
REAL ESTATE LOANS (9/8) billions	$404.0	$403.0r	
MONEY SUPPLY, M2 (9/6) billions	$3,500.8	$3,488.2r	
INITIAL CLAIMS, UNEMPLOYMENT (9/4) thous.	322	326r	−

Sources: Standard & Poor's, Moody's, *Journal of Commerce* (index: 1980=100), Dun & Bradstreet (failures of large companies), Federal Reserve Board, Labor Dept. CIBCR seasonally adjusts data on business failures and real estate loans

MONTHLY ECONOMIC INDICATORS

	Latest month	Month ago	% Ch year
HOUSING STARTS (Aug.) annual rate, thous.	1,323	1,227	
INDUSTRIAL PRODUCTION (Aug.) total index	111.1	110.9r	
IMPORTS (July) millions	$47,424	$49,698r	
EXPORTS (July) millions	$37,083	$37,639r	

Sources: Commerce Dept., Federal Reserve Board

MONETARY INDICATORS

	Latest week	Week ago	% Ch year
MONEY SUPPLY, M1 (9/6)	$1,103.1	$1,097.6r	
BANKS' BUSINESS LOANS (9/8)	267.7	270.0r	
FREE RESERVES (9/15)	334	809r	−
NONFINANCIAL COMMERCIAL PAPER (9/8)	158.0	158.0	

Sources: Federal Reserve Board (in billions, except for free reserves, which are expressed as two-week period in millions)

MONEY MARKET RATES

	Latest week	Week ago	
FEDERAL FUNDS (9/21)	3.23%	3.00%	3
PRIME (9/22)	6.00	6.00	6
COMMERCIAL PAPER 3-MONTH (9/21)	3.16	3.16	3
CERTIFICATES OF DEPOSIT 3-MONTH (9/22)	3.12	3.14	3
EURODOLLAR 3-MONTH (9/17)	3.08	3.06	3

Sources: Federal Reserve Board, First Boston

#Raw data in the production indicators are seasonally adjusted in computing the BW index (chart); other components (estimated and not listed) include machinery and defense equipment
1=Western Wood Products Assn. 2=Southern Forest Products Assn. 3=Free market value NA=Not available r=revised NM=Not meaningful

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Readers Report

MORE NOTES FROM NAFTA WATCHERS

The report from the Monongahela River Valley on the fears of retired steelworkers ("A magical misery tour with NAFTA's Steel-Belt foes," Top of the News, Sept. 13) tells half the story here. True, the global economy buried much of this region's steel industry. But the global economy also holds the keys to the region's continued recovery. Pennsylvania exports to Mexico have grown dramatically during the past few years.

Coincidentally, on the day your article hit the newsstands, representatives of western Pennsylvania's Carnegie Mellon University were meeting with President Carlos Salinas de Gortari and industry leaders in Mexico to launch a joint institute, in part to further business opportunities among our communities. Hunkering down in the Mon Valley (or Boston or Los Angeles) won't build companies and jobs. Aggressive efforts by American companies in growing markets such as Mexico will.

Robert Sullivan
Dean
Graduate School of
Industrial Administration
Carnegie Mellon University
Pittsburgh

Ten years ago, I was a metallurgist for a steel mill currently being torn down in the Monongahela River Valley. In my five years there, no major capital improvements were made. The plant was closed in the mid-'80s because it was uncompetitive.

I am now employed by a steel mill that produces the same product line. This company continually makes capital improvements to ensure enhanced quality and productivity. During the recent slump in the domestic steel industry, our company remained busy and profitable in part because of our business with Mexico.

During the last decade, "Japan-bashing" provided an excuse for companies and unions to remain uncompetitive. Now it's NAFTA. When management and employees work together to meet benchmarks for world-class cost and quality, NAFTA becomes an opportunity rather than a threat.

Ray Leasure Jr.
Fort Smith, Ark.

Robert Kuttner's commentary "Seeing through NAFTA's new clothes" (Economic Viewpoint, Sept. 20) raises important considerations but must be placed in a larger context.

NAFTA is a major foreign policy decision. Policies considered U.S. domestic issues will become major factors in turbulent Mexican politics. The two countries don't share the historical motivation and shared experiences that allowed Europeans to form the Common Market.

Before NAFTA is signed, there should be a full-scale foreign policy debate in Congress. After the treaty is signed, it will be too late.

Steven Bounds
New York

NATIONAL MEDICAL EXAMINES ITSELF

We read with interest "Migraines for National Medical" (The Corporation, Sept. 13). While under the law you are innocent until proven guilty, when you are on trial in the media, the mere announcement of an investigation wreaks tremendous damage.

Accordingly, we announced on Aug. 30 strong measures to eliminate any concerns about National Medical Enterprises' integrity and business practices. As part of a comprehensive program to restore confidence, we are appointing an independent task force, reporting directly to the ethics and quality assurance committee of the board of directors. Among other things, it will randomly test compliance with the company's policies on patient admission practices and patient referral.

We are also continuing and enhancing a program that establishes local governing boards in all hospitals, enhances quality management audits, and tightens billing and documentation procedures.

Much of the senior management team at NME is new, appointed within the past 90 days. Our highest priority is to restore, in all of our constituents, full con-

BUSINESS WEEK
OCTOBER 4, 1993 * * * 3339
ISSN 0007-7135

Published weekly, except for one issue in January, by McGraw-Hill, Inc. Founder: James H. McGraw (1860-1948).

Executive, Editorial, Circulation, and Advertising Offices: McGraw-Hill Building, 1221 Avenue of the Americas, New York, N.Y. 10020. Telephone: 212-512-2000. Telex: Domestic 127039; Intl. 2360127039. U.S. subscription rate $46.95 per year, 2 years $78.95, 3 years $104.95. Single copies $2.75, back issues $5. Write for rates in other countries. Subscriber Services: 1-800-635-1200. TDD: 1-800-554-1579

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Readers Repo

CORRECTIONS & CLARIFICATIO

"AT&T's bold bet" (Cover Story, A 30) said Chairman Robert E. Allen er attended Harvard business sch Allen completed the school's four-m executive education Program for M agement Development in 1965.

"The high price of bad blood" (To the News, Sept. 27) stated that the tional Hemophilia Foundation was manding a settlement from Ba International Inc. and three other pliers to compensate hemophiliacs contracted AIDS through clotting ag The group is targeting four other pliers besides Baxter.

"Stock picking marvel—or just a promoter" (Finance, Sept. 27) sa judge found that Rafi M. Kahn "committed willful perjury." On A 26, a U.S. appeals court vacated a junction blocking his attempt to un the board of ICN Pharmaceuticals In also vacated the perjury finding, ing "unless perjury is at issue in a such a finding is not necessary." court declined to reverse the per finding, saying, "we perceive no b for doing so on this record."

fidence in this company, its 50,000 ployees, and its dedicated medical s

Jeffrey C. Barba
Chairman &
National Medical Enterprises
Santa Monica,

IT'S NOT JUST FOGEYS WHO DIG THE *DIGEST*

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The McCooeys

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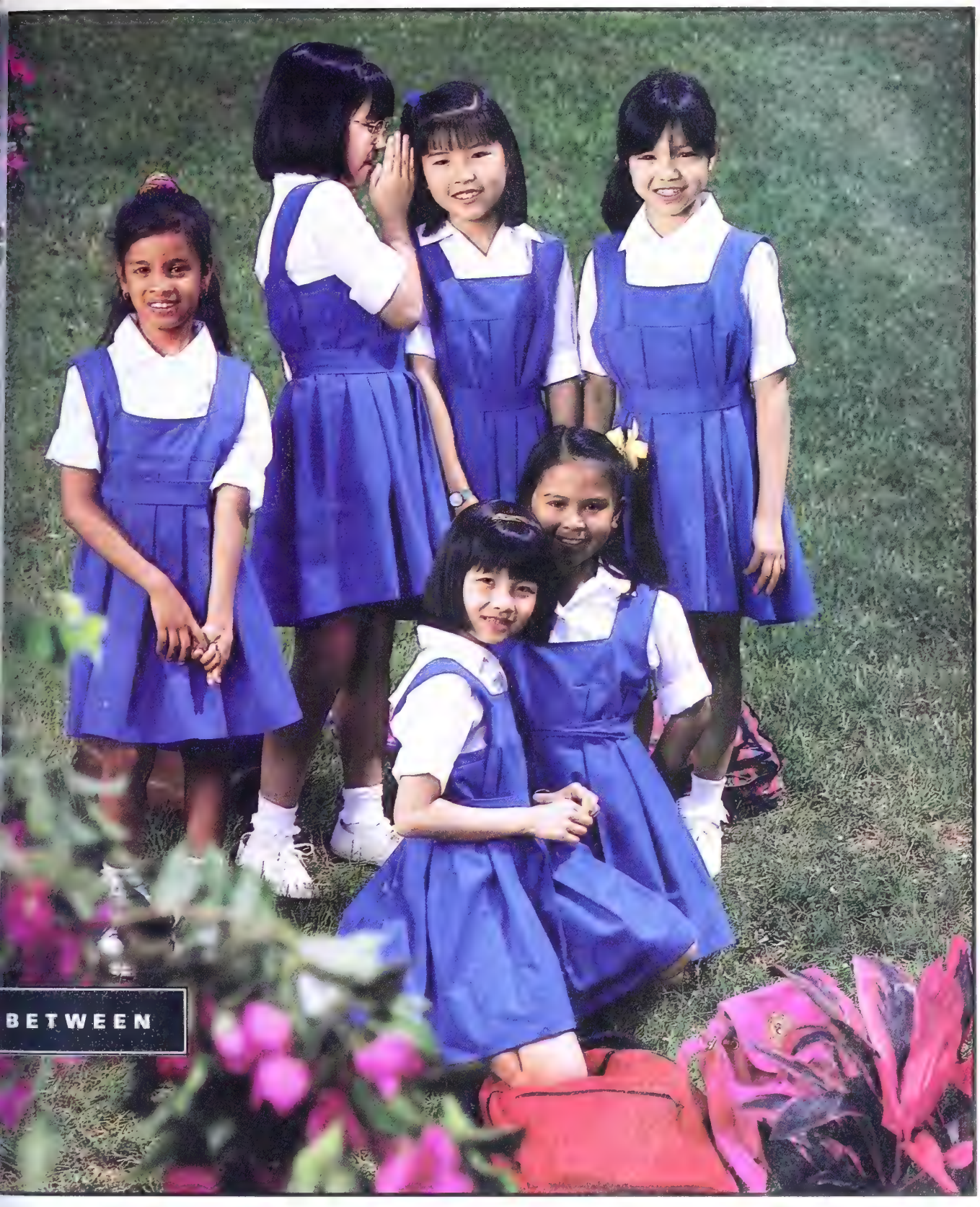

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THE GREAT POWER-LINE COVER-UP: HOW THE UTILITIES AND THE GOVERNMENT ARE TRYING TO HIDE THE CANCER HAZARD POSED BY ELECTROMAGNETIC FIELDS
By Paul Brodeur
Little Brown • 326pp • $21.95

STRONG CURRENTS, WEAK CASE

Life in the late 20th century certainly gives folks plenty to worry about—nuclear waste, the thinning ozone layer, asbestos, and pesticides and other chemicals on foods and lawns. For the past five years, *New Yorker* writer Paul Brodeur has been painting a chilling portrait of a problem that goes to the heart of how we live: the menace posed by electricity.

In his 1989 *Currents of Death*, Brodeur warned of dangerous electromagnetic fields emitted by everything from computers to electric blankets. Now, in *The Great Power-Line Cover-Up*, he not only warns of a looming cancer epidemic, but also accuses government officials, utility executives, even the nation's top newspapers, of hiding the threat. As a result, "thousands of unsuspecting children and adults will be stricken with cancer, and many of them will die unnecessarily early deaths." Yikes!

Brodeur backs up his warning with undeniably tragic tales. A big chunk of his book chronicles the sorrow on Meadow Street, for example. Only nine houses perch on this street in Guilford, Conn., but the litany of ills is horrifying—excruciating headaches, brain cancer, ovarian tumors, epilepsy. Brodeur insists the cause is an adjacent power substation that emits magnetic fields of more than a hundred milligauss (25 times stronger than those a foot away from a computer screen). What's more, he writes, public health officials inexplicably and inexcusably concluded electromagnetic fields were not to blame.

Well, don't head for the log cabin just yet. A little knowledge of this contro sy, or even a close perusal of the bo turns up enough inconsistencies, di ous interpretations, and selective rep ing to cast immense doubt on the wh argument—and to reveal Brodeur more zealot than journalist. That's b bad, because there's a need for an i biased assessment of the dozens of o contradictory studies of power-line e sure. What's more, Brodeur's view t electromagnetic fields must be avoi at all costs means he can't reasona address the underlying question: H far should society go to eliminate a s that's still uncertain but probably sm

Instead, *The Great Power-Line Co Up* repeatedly strains credulity. It's i ficult to believe that any single fa can cause the long list of ailments B deur attributes to electromagnetic fie In fact, public health officials who st ied diseases on Meadow Street n among pupils of a Fresno (Calif.) sch concluded that they are too diverse constitute a "cluster" indicative of a h ard. Brodeur's response: The offic are either incompetent of biased.

Elsewhere, Brodeur seriously und cuts his case. In addition to attribut the brain tumors on Meadow Street

netic field exposure, repeatedly cites "no r than twelve studshowing increased inice of brain cancer in le exposed to fields. ı, late in the book, he ibes new Swedish rech that "blew away industry's argument the results of previstudies were suspect." Swedes found that greater exposure to s, incidence of childleukemia rose somet. But Brodeur ad: "Surprisingly, they rved no association in r children or adults een exposure to magnetic fields and occurrence of brain tumors." This rently doesn't shake Brodeur's belief ich a link. And he doesn't mention one study of telephone linemen cithemicals such as solvents, not elecıagnetic fields, as the probable cause evated rates of brain cancer.

odeur's charges of a cover-up are larly unconvincing. Various prestigscientific bodies have concluded that cancer threat from power lines is oven. Brodeur says the conclusions are baloney: The researchers are biased because some are utility industry consultants. But any study suggesting a small link between electromagnetic fields and cancer he treats as gospel—even if that research was wholly funded by the industry. In Brodeur's world, it seems, the main sign of being part of a conspiracy is disagreeing with him.

Power lines and electrical devices have hardly been proven benign. Evidence suggests a small increase in leukemia and perhaps other cancers among people exposed for long periods to moderately high fields. But eliminating all risk by burying power lines, shielding transformers, and moving homes and schools would cost billions—and probably prevent only a handful of cases. Far more sensible is a strategy of "prudent avoidance"—reducing exposure by taking a few cheap steps, such as regulating current flows through power lines to minimize fields or prohibiting new houses or schools from being built within a few hundred feet of high-tension wires. Many states and utilities already take such actions—in many cases because of public pressure.

The Great Power-Line Cover-Up is an odd beast. The new evidence it purports to present is too weak to have much impact on policy, and as an exposé, it's remarkably lame. What's left is merely a good read that needs to be approached with a sturdy dose of skepticism.

BY JOHN CAREY

Carey covers Science and Technology for BUSINESS WEEK from Washington.

Brodeur says power lines cause cancer. But his selective reporting undermines his argument

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DOWN AND OUT ALL OVER EUROPE: A LESSON FOR AMERICA

BY GARY S. BECKER

What accounts for jobless rates of over 10% in the EC? Companies are leery of hiring because of laws that protect workers from layoffs and assure generous vacation, sick days, and family leave

GARY S. BECKER, THE 1992 NOBEL LAUREATE, TEACHES AT THE UNIVERSITY OF CHICAGO AND IS A FELLOW OF THE HOOVER INSTITUTION

Many intellectuals in the U. S. and Asia believe that European social welfare policies should be a blueprint for action in their own countries. But those policies are financed by high taxes and mandates on business that are at least partly responsible for a spectacular increase in European unemployment during the 1980s and 1990s.

In the early 1980s, unemployment was less than 4% in France, Germany, and most other Western European nations. It now averages more than 10%, and the rate for those under 25 is close to 20%. By contrast, unemployment in the U. S. has not increased much during the past 15 years and is still less than 7%, while Japan's rate has risen only slowly and is still below 3%.

The U. S. and Japanese experience shows that the growth in European unemployment is not due simply to greater competition from the less developed world or to other forces that have affected all countries equally. The rapid growth of labor costs throughout Europe appears to have had much to do with the explosion in unemployment.

About half of Germany's average labor cost of $27 an hour results from social security, health, unemployment compensation, disability, and other taxes. And in France, Italy, Spain, and Sweden, the portion of total labor costs attributable to the government is nearly as large. By contrast, this fraction is less than 25% in Japan and the U. S., and even lower in Korea and Taiwan.

Regulations that restrict layoffs and mandate numerous vacation days and other paid leaves raise Europe's cost of labor far above the already high level of wages and taxes on labor. Generous leaves for sickness and other reasons increase Sweden's absenteeism rate to 10% and Germany's to 9%, compared with 2% to 3% in Japan and the U. S.

UNDERGROUND ECONOMY. To reduce costs, many European companies increasingly resort to temporary workers, because they are easy to dismiss and do not qualify for fringe benefits and taxes. In Spain, where it is almost impossible to fire workers on the regular payroll, about one-third of employees are temporary. Even in France and Germany, more than 10% of workers are temps.

Europe's underground economy has also grown enormously, in part because it provides a way to escape government-imposed employee costs. Although no reliable figures on this sector exist, crude estimates suggest perhaps 25% of all Italian and Spanish workers work underground at least part of the time, as do 10% of those in Belgium, France, Germany, and Sweden.

When labor is expensive and when f employees is difficult, companies replace parting workers only slowly—and are relu to expand even when the economy picks This is why it now takes much longer th did a decade ago to find a job in Europe if are a first-time job seeker, a mother retur to work after childbirth, or an immigran also explains why the youth unemploym rate is so high and why those out of w for over a year have grown to more than third of the unemployed. During the past decades, private employment in the Euro Community has barely increased: The pu sector has accounted for almost all growt employment. Japan and the U. S. have the opposite experience: Private employm has surged, while government employm has grown little.

THE HARD WAY. The long-term unemplo youths, temporary employees, and un ground workers—none of these groups h any opportunity to invest in job skills training. The sharp growth in these catego means that fewer workers are being traine work in modern economies, which dem high levels of skill and knowledge. The in quate training that workers receive mak still harder for them to find satisfactory l term jobs.

Fortunately, a reaction seems to be set in. Sweden's conservative government tightened up its rules for paid sick leave though they are still generous to a fault. T Waigel, Germany's Finance Minister, w to cut unemployment pay and social-secu handouts and scrap maternity pay and ments to construction workers who are tem rarily laid off. The French government frozen social-security benefits and increa the number of years of work needed to eligible for pensions. In the Netherlands, Christian Democrats want to shelve the m mum-wage law. A Socialist Spanish gov ment is trying to make it easier for compa to fire employees.

Unfortunately, President Clinton's propo health tax on employers is just the latest ample of a trend in the U. S. to mandate b ness spending. Others include excessive S Security and Medicare taxes, difficult-to-m requirements to employ disabled job ap cants, and compulsory leaves for employee bear children. The European experience sh be a lesson to the U. S. and other countr Employment is much more buoyant when g ernments interfere less in labor market fairs. Let's hope that this lesson doesn't h to be learned the hard way—through hig unemployment.

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BY MICHAEL J. MANDEL

BIG SAVINGS TO BE HAD FROM BETTER WEATHER WATCHING

Since 1988, the U. S. has been hit by a near-Biblical string of weather disasters, causing a staggering $93 billion in damage (table). By comparison, bad weather caused only $5 billion in damage the preceding five years (1983 to 1987), according to figures from the National Climatic Data Center in Asheville, N. C.

Why the sudden surge of weather-related damage? Bad luck, in part. But the U. S. has also become more vulnerable to severe weather. Exposed coasts and flood plains now are filled with homes and businesses. And many meteorologists suspect there's more variability because of the greenhouse effect and other climatic changes.

HEAVY WEATHER, HIGH COSTS

		BILLIONS OF DOLLARS
SUMMER 1993	FLOOD MIDWESTERN U.S.	$12.0
MARCH 1993	STORM/BLIZZARD EASTERN U.S.	6.0
SEPTEMBER 1992	HURRICANE INIKI HAWAII	1.8
AUGUST 1992	HURRICANE ANDREW FLORIDA	25.0
AUGUST 1991	HURRICANE BOB U.S. EAST COAST	1.5
SEPTEMBER 1989	HURRICANE HUGO CAROLINAS	7.1
SUMMER 1988	DROUGHT/HEAT WAVE CENTRAL AND EASTERN U.S.	40.0
DATA NATIONAL CLIMATIC DATA CENTER	TOTAL COSTS	93.4

But the bill from bad weather could have been even bigger if forecasting hadn't improved. "Our five-day forecast now is as good as our three-day forecast was 8 to 10 years ago," says James Howcroft, deputy director of the National Meteorological Center at the National Weather Service (NWS) in Camp Springs, Md. The NWS is in the middle of a 15-year, $4 billion modernization program that should further boost its forecasting ability. New radar systems already are being used to give earlier tornado warnings in Oklahoma and Florida, saving lives and property.

Soon, forecasts of temperature and rainfall a season or more in advance may help prevent more damage. "You can save lives with short-term forecasts," says Richard Anthes, president of the University Corporation for Atmospheric Research in Boulder, Colo., "but long-term outlooks are much more valuable in terms of agricultural strategies, water-resource management, and industry."

With a few months' warning of a drought or flood, farmers could switch crops and planting times to take advantage of conditions that are wetter or drier than usual. And "if you had a longer outlook, you might manage your dams and reservoirs differently," says John A. Dutton, dean of the College of Earth & Mineral Sciences at Pennsylvania State University. If the Midwest floods had been anticipated, the U. S. Army Corps of Engineers could have let water out of reservoirs in advance to make more room for heavy rains.

Up to now, the NWS has made 90-day forecasts using methods that don't predict rainfall very well. But there are promising new forecasting techniques based on the El Niño effect, which links Pacific Ocean temperatures to climate patterns around the world, says NWS meteorologist Ants Leetmaa. Soon, the NWS will start releasing experimental long-run forecasts of U. S. temperature and precipitation using the new model. "We're going to be able to do better than we're doing now," says Leetmaa. If he's right, it could help the U. S. avoid getting soaked in the future.

WAGES AND PROFITS: MORE BALANCED THAN YOU THINK

Call it the dog that didn't bark in the night. It's common wisdom that the economy is going through an unprecedented squeeze on jobs and wages. At the same time, the rolling tide of corporate downsizing and new technology was supposed to lift productivity and profits.

Yet judging by the numbers, there is no sign that capital has gained the upper hand in its struggle with labor. According to Commerce Dept. figures, in the second quarter of 1993, the share of national income going to wages and salaries was 60.5%. That's down just slightly from the 61% average in the years 1985-89. And despite the rebound in profits over the past two years, corporations still got only 8.7% of national income in 1993's second quarter, unchanged from the 1985-89 period.

That suggests that there has been no big shift from wages and salaries to profits. Instead, corporations have been cutting costs just to survive rather than to take a bigger share of the national income pie. If so, when normal growth resumes, wages will rise for workers just as profits will for companies.

REAL INTEREST RATES ARE A WRENCH IN THE G-7'S RECOVERY

Why hasn't the big drop in inte rates in the industrial w spurred more growth? One key reas that while market rates have come d sharply, real interest rates—the i est rate minus inflation—still are in most countries. In the U. S., the cent plunge in rates brought the interest rate on 10-year bonds dow about 2.5%. That's close to its post average and lower than it was for of the 1980s.

But even with Japan's latest disco rate cut, real interest rates across r of the world are still startlingly h Japan, with a 3.9% interest rate and inflation, has a real rate of 2.9% o 10-year bonds. France has a 3.9% rate, and Britain, with a 7% inte rate and a 1.3% inflation rate, has a rate of 5.7%.

Until these real interest rates further, faster growth will be har achieve. In a recent report, Steven gourney, head of global strategy at man Brothers Inc., notes that Group of Seven real-bond yield, no 2.9%, compared with 3.4% two mo ago, remains too high" to revive world economy.

THE BOND BOOM LOOK LIKE A DEFICIT-CUTTER' BEST FRIEND

In the first seven months of 1993, r than $73 billion of new money flo into bond mutual funds as investors advantage of the bond rally trigg in part by President Clinton's defici duction plan. This huge inflow has s market watchers worried that a l number of unsophisticated investors be exposed to big losses if interest r bounce up again.

Not to worry, says economist D Hale of Kemper Securities Inc. He p out that the enormous shift into b funds has created something that n existed before: a broad-based constit cy for deficit reduction. "That could the Administration offset some of unpopularity caused by its tax progr notes Hale. What's more, the legion bond-fund investors now have a ve interest in resisting any attempt boost the deficit again, making it n likely that interest rates will stay d in the future.

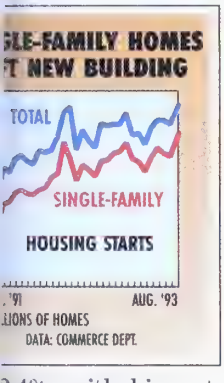
BER 4, 1993

BY JAMES C. COOPER AND KATHLEEN MADIGAN

HE THIRD QUARTER FULL OF FIRST DOWNS

you stare at the 1.3% figure for first-half economic growth too long, your vision of the second half is ound to get blurred. Many of the third-quarter num- clearly suggest that the U. S. economy's disappoint- ast is not prologue. In fact, second-half growth in the e of 3% to 4% looks increasingly likely.

ie growth leaders in the third quarter are coming into per focus. Consumers are spending at a healthy clip, ite their widely voiced pessimism. Business has in- singly bullish plans to invest in new equipment. And when you might have thought it wasn't going to en, homebuilding and housing demand finally are re- ding to historically low interest rates.



Also, overall industrial production—and manufacturing output especially—are showing definite signs of a pickup, even though factory payrolls still are shrinking and the trade gap continues to yawn.

Consider the latest data: Consumer spending through August is rising at an annual rate of about 3.5% from the second quarter. Industrial production is 2.4%, with big auto-led gains on tap for the fourth rter. Capital-spending plans for the second half are ly as robust as they were in the first. And in August, sing starts jumped to a 3½-year high, while new jobless ms fell to a four-year low (charts). That's hardly a pic- e of a struggling economy.

OME TILL OUBT THE ATA

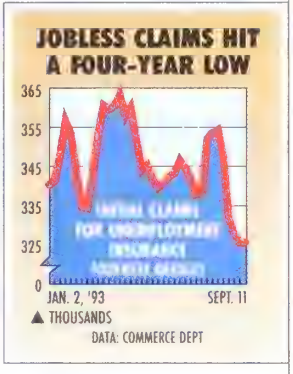
Many corporate economists aren't convinced. The latest forecast of the National Association of Business Economists, released during its Sept. 19-22 conference in cago, calls for average annual growth of 2.5% in 1993, growth of barely 3% in the second half.

The NABE is none too ebullient about prospects for 4, either. The forecasters expect 2.8% growth next r, with consumer-price inflation of 3.3%, up from a jected 3.2% this year. The standout number in the ecast, though, is the unemployment rate. The nomists believe that joblessness will end 1994 at 6.6%— e changed from the current level of 6.7%.

ne reason the NABE gives for its modest growth fore- is the belief that lower interest rates will not provide h stimulus to rate-sensitive sectors. That must have n prior to the report on August housing starts. From all recent indications, housing is now ready to provide the economy with a big lift.

Housing starts jumped 7.8% in August, about twice the general expectation, to an annual rate of 1.32 million—the most since February, 1990. The key single-family sector led the gain with an 11% increase to 1.18 million, the highest level in six years. Permits to begin new construction also posted a solid advance.

Cheaper mortgages and better weather fueled the gains. Starts rose strongly in all regions, except in the Northeast, where they fell. New building even rebounded by 15.6% in the West, where it has been suffering enormously.



The strong numbers on homebuilding echo the increasingly optimistic anecdotal reports from lenders and contractors. By early September, mortgage applications for home purchase had jumped some 35% from June, according to the Mortgage Bankers Assn.

Also in September, 44% of the builders surveyed by the National Association of Home Builders rated current sales activity as "good to excellent," the most in nearly five years. Moreover, the number who expect "good to excellent" conditions for the next six months jumped to 48%. That was the best assessment in nearly eight years.

FOLKS ARE BUYING MORE

If housing is now kicking in, the lift to the economy will be broad. Spending on home-related goods, such as furniture and appliances, always picks up when housing does, and that lifts factory orders and output.

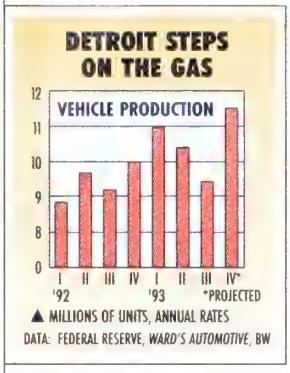
In fact, retail buying already may be seeing some benefits. Seasonally adjusted sales at retailers and discount stores rose a strong 2.6% for the first three weeks of September, compared with August, according to the *Johnson Redbook Report*. And auto sales early in the month held up, matching the August level.

One reason consumers are in a buying mood is because fewer households are in dire financial straits. Consumer loan delinquencies—payments that are more than 30 days overdue—fell sharply in the second quarter, according to the American Bankers Assn. Delinquencies hit a nine-year low, taking the level back to where it was prior to the big debt buildup of the 1980s.

Rising consumer spending appears to be feeding back to

manufacturers. After languishing this spring, total industrial production rose 0.2% in August, its third gain in a row. Factory output was up by 0.4%, and the overall operating rate remained at a noninflationary 81.8%.

Output so far in the third quarter is increasing at a 2.4% annual rate. That's a bit better than the 2.1% advance in the second, and largely reflects the weather-related surge in utility use over the summer. Factory output is up at a 1.3% pace in the first two months.



Production of business equipment remains strong. Output rose 0.7% in August and is 9.1% above its year-ago pace. Offsetting that strength is the continued decline in defense output as well as the recent drag from auto and truck production.

Auto assemblies have fallen for four straight months, but you can't blame slow car sales. Supply bottlenecks related to the Midwest floods caused some cuts. More model changeovers than usual this year resulted in other shutdowns. In fact, dealers report firm demand, but skimpy inventories are limiting sales of popular lines.

Heading into the fourth quarter, though, Detroit is shifting into high gear (chart). Auto makers plan to build cars and light trucks at about an 11.5-million annual rate this quarter. If carried out, that would be the best output performance in five years. It clearly will give a boost to factory activity—and economic growth.

THE TRADE GAP REMAINS BLOATED

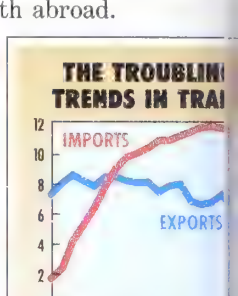
That would be a godsend for manufacturing, which is getting pummeled by the one-two punch of America's deteriorating foreign-trade position. Exports are growing more slowly, as imports wash ashore in droves.

In July, the merchandise trade deficit shrank to $10.3 billion from the stunning $12.1 billion gap in June. Exp dropped 1.5%, to $37.1 billion, the fifth decline so far year. Imports fell 4.6% in July, retracing only par their 5.1% jump in June.

Some of the July import drop was probably the re of retailers paring down their inventories. Stores their goods on hand by 1.3% in July, with a 4.9% fa car inventories. Imports of consumer goods dropped in July, while foreign-car shipments plunged 9.7%.

However, with U. S. demand rising, imports will p ably rebound in coming months. And at the same t export growth will struggle to pick up steam, hampe by either recession or slow growth abroad.

Price-adjusted exports for the past year have risen only 5.7%, compared with the 12 months ended in July, 1992. Imports, on the other hand, have skyrocketed, jumping 11.5% (chart).



The diverging trends in exports and imports suggest that the U. S. trade deficit will total more than $100 billion this year, which could result in the widest trade gap since 1989.

Trade with recession-wracked Europe has been e cially dismal. So far this year, the U. S. trade sur has shrunk to just $893 million, an enormous plunge f $7.4 billion in first seven months of 1992. With solid nomic growth on the Continent unlikely until 1994, A ican exporters will face a tough time increasing s ments across the Atlantic.

However, according to the forward-looking indicat healthy domestic demand is propelling the U. S. econ to faster growth in the second half after a weak half. Of course, as forecasters well know, foresight not be 20-20. But the latest data say that hindsight sin shows the wrong picture.

THE WEEK AHEAD

CONSUMER CONFIDENCE

Tuesday, Sept. 28, 10 a.m.
The Conference Board's September index of consumer confidence is expected to edge higher, to 60 from 59 in August, according to the median projection of economists surveyed by McGraw-Hill Inc.'s MMS International. The uptick is based on better readings from other confidence indexes already released.

NEW SINGLE-FAMILY HOME SALES

Thursday, Sept. 30, 10 a.m.
Sales of new homes probably rebounded in August, to an annual rate of 650,000, according to the MMS survey. The sharp drop in July was inconsistent with falling mortgage rates, rising mortgage applications, and builder surveys that show improving market conditions.

PERSONAL INCOME

Thursday, Sept. 30, 10 a.m.
Personal income in August probably bounced back with a gain of 0.8%, says the MMS survey. The reasons: the absence of farm losses, which depressed the July total, plus August gains in hours worked and hourly pay. Consumer spending likely posted a gain of 0.3%.

LEADING INDICATORS

Friday, Oct. 1, 8:30 a.m.
The leading indicators likely rose by 0.5% in August, according to the MMS projections, lifted largely by falling jobless claims and rising stock prices.

FACTORY INVENTORIES

Friday, Oct. 1, 10 a.m.
Manufacturers probably drew down inventories slightly in August. Fac stockpiles likely dipped by 0.1%, fo ing no change in July.

NAPM SURVEY

Friday, Oct. 1, 10 a.m.
The September index of industria tivity compiled by the National Ass tion of Purchasing Management is pected to have risen to 50%, from 4 in August. If so, it will be the first since May that the NAPM index reached the important 50% mark- dividing line between expansion and traction in the manufacturing secto

ERIC HOFFMANN/BW

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SCALING MOUNT PARAMOUNT

BARRY & JOHN & TED & SUMNER & MARTY SCRAMBLE FOR A FOOTHOLD

Thomas S. Murphy was dining with his wife at New York's Four Seasons restaurant on Sept. 14 when he spied fellow media moguls Sumner M. Redstone and Martin S. Davis at another table. The two were celebrating the proposed $8.2 billion merger of their media companies, Viacom Inc. and Paramount Communications Inc. Murphy, who engineered the 1985 takeover of ABC by Capital Cities Communications, sidled over to congratulate them. As Redstone recalls it, Murphy gave every indication that Capital Cities/ABC Inc. wouldn't disrupt the deal.

Cap Cities may be the only media company that doesn't.

Two weeks after that dinner, Adolph Zukor's fabled Paramount studio has become a chip in a high-stakes poker game involving many of the major players in the media business. First, there's the other suitor: Barry Diller, whose QVC Network Inc. offered $9.5 billion in stock and cash for Paramount on Sept. 20. Then there's Ted Turner, whose Turner Broadcasting System Inc. has mulled its own bid or may get involved in Diller's effort. Finally, there are the third parties: Cable titan John C. Malone and Time Warner Inc., both of whom would gain much by thwarting Redstone.

Sources close to Paramount say its board of directors will meet on Sept. 27 to consider Diller's proposal. And Paramount insiders expect Viacom Chairman Redstone to sweeten his offer, possibly by raising cash from a separate deal with a telephone company. "There is no chance that the existing Viacom proposal will be approved by Paramount's shareholders," says an investment banker in Redstone's camp.

HELL FOR LEATHER. And some Wall Streeters don't think the battle for Paramount—the first hell-for-leather bidding war of the 1990s—will end there. Eager investment bankers see new suitors everywhere they look: In addition to Turner, such companies as Bell Atlantic, Bertelsmann, and Blockbuster Entertainment are all rumored to be interested in all or part of Paramount.

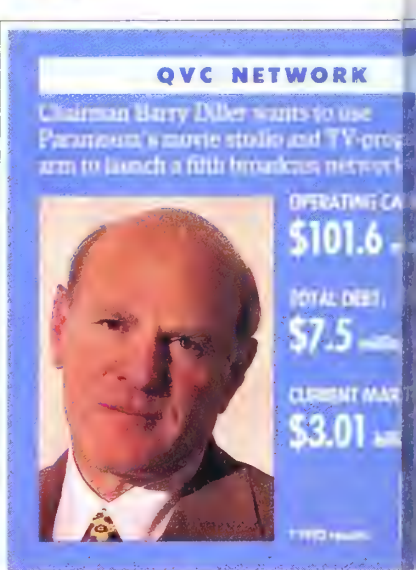
Even if the bidding war remains a showdown between Diller and Redstone, it will have many other participants. With franchises ranging from Madison Square Garden to *Star Trek* to publisher Simon & Schuster, Paramount is certainly a trophy. But the industry's power players see it as much more: a chance to redraw the communications landscape.

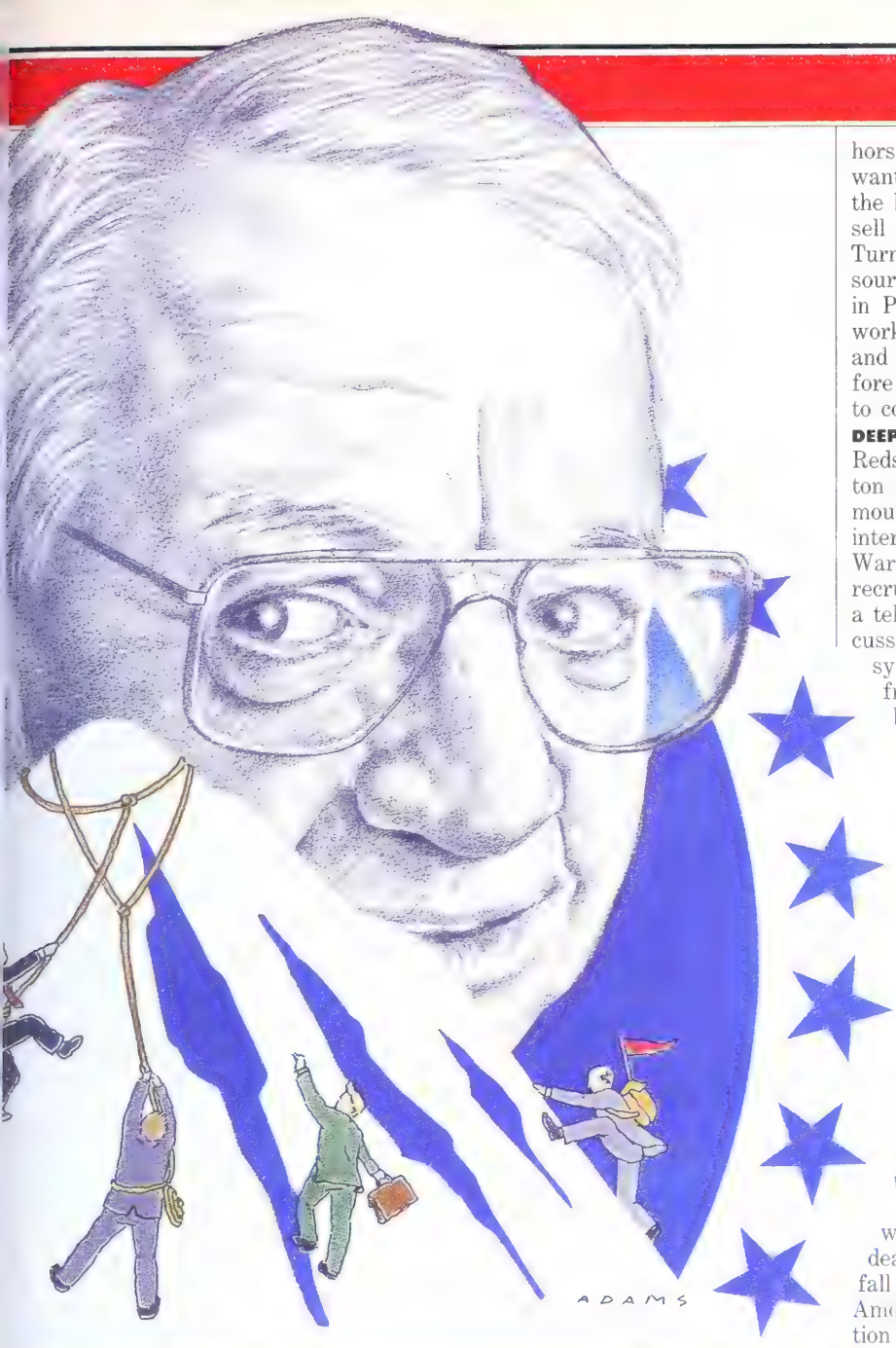
Take Time Warner. With $16 billion in debt and a $2.5 billion deal of its own with U S West Inc., it wants no part of the auction. But Time Warner would like to cash out its 20.6% stake in Turner Broadcasting to pay down its debt. By allowing Turner to stalk Paramount, it could accelerate that process. Antitrust regulations would prohibit Time Warner from holding interests in two companies that run studios. So, if Turner acquired Paramount, he might give some of the assets to Time Warner in return for its stake.

What would Time Warner want? One possibility is Paramount's seven TV stations. "The company is dead set on starting a fifth network," notes Porter Bibb, a media investment banker at Ladenburg Thalmann & Co.

Tele-Communications Inc. CEO John Malone has a similarly complex agenda (page 28). He's backing Diller's bid by giving QVC $500 million through his cable-programming company, Liberty Media Corp. The home-shopping network's other key investor, Comcast Corp., also plunked down $500 million. But TCI and Comcast own stakes in Turner, too. As members of Turner's board, Malone and Comcast President Brian L. Roberts acquiesced to his request to consider a bid.

Why would Malone sanction a two-





horse race? QVC advisers say he may want to bring Turner into the game if the bidding gets pricey. Or Diller could sell some of Paramount's assets to Turner after his deal closes. Hollywood sources say Turner is already interested in Paramount's 50% share of USA Network. Executives close to QVC say Diller and Turner, who met in New York before QVC's bid, are still discussing ways to collaborate.

DEEP POCKETS. Everything hinges on Redstone's next move. Publicly, the Boston billionaire says he will win Paramount with a reasonable bid: "I'm not interested in ending up with a Time Warner." Privately, Redstone has been recruiting allies. He and Davis met with a telephone company on Sept. 20 to discuss selling a stake in Viacom's cable systems. Redstone could use the cash from such a deal to finance a higher bid. Before his Paramount offer, he scuttled a similar deal with Southwestern Bell worth $2.4 billion.

But Redstone may not need a partner. His 76% stake in Viacom is worth $5 billion. Plus, he's the sole owner of the theater chain National Amusements Inc. and all the real estate under its cinemas. Together, this is worth hundreds of millions more. Raymond Katz, a media analyst at Lehman Brothers Inc., says if Redstone were willing to saddle Paramount Viacom with $7.8 billion in debt—still a manageable amount—he could boost the cash portion of his bid from $9 to $45 a share, for a total offer of almost $100 per share.

The bigger question is: Would he want to? The lockup provisions in his deal guarantee Redstone a huge windfall even if he concedes to Diller. Among other things, Viacom has an option to buy 20% of Paramount's stock at $69 a share. To buy out Redstone, Diller would have to pay him the difference between $69 and the winning bid. At $80 a share, that's a cool $264 million.

For now, Diller's investment bankers at Allen & Co. are exuding confidence. Even though the QVC bid already includes $3.5 billion in cash, Diller has the combined strength of three balance sheets: QVC's, Liberty Media's, and Comcast's. Unlike Viacom, which has $2.4 billion in debt, QVC carries almost no debt and will generate upwards of $200 million in operating cash flow in 1993. Says one banker: "Raising $5 billion would be easy. Raising $10 billion might be a stretch."

Redstone's strategy is simple: portray Viacom as a better fit for Paramount than QVC and suggest that Malone is a

VIACOM

owner Sumner Redstone wants a turn his midsize media company into ultimedia giant.

OPERATING CASH FLOW:
$371.0 million

TOTAL DEBT:
$2.4 billion

CURRENT MARKET VALUE:
$6.94 billion

WILD CARDS

Ted Turner may still want a studio. More likely, he could use his involvement in a Diller bid as a way to buy out one of Turner Broadcasting System's key shareholders, Time Warner. Diller's backers, John Malone of TCI and Brian Roberts of Comcast, could use Turner as an extra lever if Redstone tops QVC's current bid.

regulatory liability for Diller. On the first point, he may have a case. Paramount could make a *Ren & Stimpy* film, for example. But could Diller harness *Star Trek: Deep Space Nine* to sell jewelry? In recent interviews, Diller has played down the fusion of electronic retailing with entertainment.

Diller may also have his hands full just running QVC. The network's operating margin dropped from 11% in fiscal 1992 to 9% in the first half of 1993. And observers say Diller has faced a higher return rate on some of the more upscale merchandise QVC has offered since he took over. At the same time, Diller has a pending merger with archrival Home Shopping Network.

Despite its epic cast, the Paramount saga is regarded by many observers as a *mano-a-mano* battle between foes Barry Diller and Marty Davis. "Diller is younger and stronger and more determined," says Ladenburg's Bibb. Perhaps. Then again, they don't come any stronger or more determined than 70-year-old Sumner Redstone.

By Mark Landler in New York, with Ronald Grover in Los Angeles and Gail DeGeorge in Miami

JOHN MALONE: THE MAN WHO WOULD BE KINGMAKER

If New York is the battlefield in the war for Paramount Communications Inc., then the war room has been somewhere on the Maine coast. That's where cable titan John C. Malone has his seaside vacation home. And during the early skirmishes, the 52-year-old CEO of Tele-Communications Inc. and chairman of Liberty Media Corp. was fielding phone calls there from Barry Diller, chairman of QVC Network Inc., and from Ted Turner. The reason: Malone, through his companies, owns 30% of QVC and 22% of Turner Broadcasting System Inc. and will play a pivotal role in their efforts to bag Paramount. "You may be reading about Barry Diller and Ted Turner," says one Hollywood dealmaker. "But John Malone is the kingmaker, and neither would even be in this game without him."

For years, Malone has worked to put himself at the center of an evolving digital media industry. Now, with his multiple roles in the scramble for Paramount, he is poised to realize his grandest ambitions. If Diller prevails in the bidding war, Malone could parlay his $530 million, 51% stake in Liberty into a 15% interest in Paramount QVC—making him the largest shareholder in one of the world's largest media companies.

HUNGRY FOR PROGRAMMING. For years, Malone has used TCI's base of 10.5 million cable subscribers—roughly one of every five cable hookups in the U.S.—to develop new programming for the coming 500-channel universe. In the mid-1980s, TCI helped rescue the Discovery Channel and gave seed money to Black Entertainment Television. Liberty, which TCI spun off in 1991 to quell government concerns about Malone's growing power, generated $135 million in revenues last year from its 9 cable networks and 15 sports channels.

So far, Malone, who is an electrical engineer and PhD from Johns Hopkins University, has stopped short of actually owning a Hollywood studio. He looked over MGM/UA Communications in 1989 and again earlier this year but passed both times. And in April, TCI pledged $90 million to Carolco Pictures Inc. for a small stake and pay-per-view rights to four of its movies.

The Paramount deal would satisfy Malone's desire for the high-visibility programs—TV shows such as *Cheers* and movies such as *The Firm*—that will allow cable operators to push cable's penetration past its current 65% of the country and boost revenues. "With strong enough programming, we can charge *à la carte*," says Brendan Clouston, TCI's COO.

If Paramount and QVC merge, cable titan Malone will be the largest shareholder

Malone's relentless quest for programming has helped make him a lightning rod in Washington, where the Federal Communications Commission is implementing rules that could force him to choose between running TCI's cable systems and Liberty's programming interests. That may be why Malone's name didn't even appear on the announcement of Diller's bid.

But Malone won't be able to lie low much longer. Viacom is already making him the focus of a public-relations campaign to discredit the QVC offer. Advisers to Viacom say that with a stake in Paramount, Malone would have undue control of both TV production and distribution.

"WHEREVER YOU GO." Malone began courting Diller two years ago, before Diller left Fox Broadcasting Co. In late November, Diller joined QVC as chairman after structuring a deal to share control with Malone and fellow QVC board member Brian L. Roberts, president of Comcast Corp.

Since then, Malone has been a quiet force behind the scenes. He and Roberts were quick to offer $500 million when Diller needed an extra $1 billion in equity to swing the Paramount bid. And Turner sought approval from him before he began scouting his own possible Paramount bid. Even though TCI owns a fifth of Turner, Malone, who led the 1987 rescue of Turner's then-debt-plagued company, abstained from voting. "Wherever you go, there's one name: John Malone," says a Viacom executive.

A Paramount deal, coupled with the likely federal restraints, would probably force Malone to leave TCI and devote his energies to Liberty, say several media experts. Already, Malone has established a [illegible] office of the CEO to run TCI. And [illegible] he still holds a small stake, most of his assets are tied up in Liberty. "Everyone's technology is going to look pretty much the same," Malone told a cable-industry audience in June. "It'll be the the programming that people are going to pay to see." From his off-stage perch, John Malone is getting set for that day.

By Ronald Grover in Los Angeles, with Mark Landler in New York and Mark Lewyn in Washington

FOR SANDY WEILL, THE CROWNING GLORY

A Travelers merger gives Primerica a strong franchise and brand name

Last July, Edward H. Budd, chief executive of Travelers Corp., and Sanford I. Weill, CEO of Primerica Corp., were getting ready to be photographed at Primerica's guest house in Greenwich, Conn. Budd helped Weill straighten his tie. When he got it good and tight around Weill's neck, he said: 'Now, I've got you." They both laughed.

It looks as if it's Weill who has Budd now: Primerica is poised to swallow Travelers. On Sept. 22, the two companies announced they were discussing "a possible business merger." Primerica, which last October bought 27% of Travelers, would swap about eight of its shares for each 10 of Travelers. Primerica would thus acquire the remainder of the company—in a transaction valued at $4 billion.

While the new company would keep the Travelers name, there is little doubt on Wall Street about who would be running the show. Neither Travelers nor Primerica is talking, but all bets are that Weill, 60, would serve as chief executive of the combined Travelers and Primerica. Robert I. Lipp, the Primerica vice-chairman responsible for overseeing Primerica's Travelers stake, is expected to get the No. 1 job on the Travelers side of the company. Budd, 59, probably will land a senior post at the new company.

CASTOFFS. A Travelers deal would be the crowning accomplishment of Weill's career. He has already shaped Primerica into a money machine—from a grab bag of insurance, brokerage, and consumer-credit castoffs. With the Travelers deal, he will triple Primerica's assets overnight, acquiring in the process a strong franchise and brand name. "It's really a remarkable achievement," says Scott Offen, a portfolio manager at Fidelity Investments, a major Primerica shareholder. "Since he bought Commercial Credit in the mid-1980s, he has built one of the truly distinguished financial institutions in the country."

Weill has already racked up some stunning coups. In March, he announced Primerica would buy Shearson Lehman Brothers Inc. from American Express Co. for $1.2 billion, adding almost 10,000 brokers to Primerica's Smith Barney division. In June, he nabbed Robert F. Greenhill, former president of Morgan Stanley & Co., to head the new Smith Barney Shearson. Add those victories to his initial $723 million stake in Travelers, which has earned a profit of more than $500 million.

BUDD AND WEILL: A GOOD DEAL FOR SHAREHOLDERS

It's a safe guess that Weill persuaded Budd to sell him the rest of Travelers. Budd had made some progress in turning earnings around and attacking its $5 billion in sour real estate investments. On Sept. 8., Travelers sold 35 foreclosed properties and 12 underperforming commercial mortgage loans to George Soros' Quantum Realty Trust for $634 million. But the pace may not have been fast enough to satisfy the Primerica managers, who already were taking a hands-on approach to whipping Travelers into shape. "If you really want to turn it around, you have to have control," says one Wall Street source.

STRIPPING ASSETS. Most analysts think both Travelers and Primerica shareholders will be better off with the Primerica team running the show. Weill's strong suit is building shareholder value, and he's well known for stripping acquisitions to their best assets and selling the rest. He encouraged the restructuring that helped nearly double Travelers' stock in the past year, from 19 to 36.

If the companies merge, there could well be more—including a sale of some of Travelers' unwieldy portfolio of businesses. "They are very unlikely to keep all of Travelers' businesses," says Francis X. Suozzo, an analyst at S. G. Warburg & Co. Weill may also combine some back-office operations, says Lawrence G. Mayewski, senior vice-president at A. M. Best Co., the insurance rating agency.

Once Travelers and Primerica combine into a more diversified company, analysts expect Weill to squeeze an extra $1.5 billion out of Travelers businesses that are overcapitalized and underperforming. He could then redeploy the capital in more profitable areas, says Weston M. Hicks, an analyst at Sanford C. Bernstein & Co. "The deal is a way to unlock the value in Travelers," he says.

Primerica is expected to issue 85 million new shares to buy Travelers' remaining stock, but analysts aren't worried about dilution. The only concern, says Best's Mayewski, is that in the short term, Travelers' real estate investments could be a drag on Primerica's strong earnings. And it is not clear how Primerica, a consumer financial-services company, and Travelers, an institutional company that has large corporate clients, can work together, says Warburg's Suozzo. But Sandy Weill has a knack for getting results. And the megadeal of his career should be no exception.

By Leah Nathans Spiro in New York and Chris Roush in New Haven

A NEW FINANCIAL POWERHOUSE

How the combination of Primerica and Travelers will measure up

BASED ON 1992 RESULTS	ASSETS	REVENUES	INCOME	MARKET VALUE**
PRIMERICA	$23.4 BILLION	$5.1 BILLION	$728 MILLION	$11.3 BILLION
TRAVELERS	$53.6 BILLION	$9.7 BILLION	(658) MILLION	$5.2 BILLION
1993 ESTIMATES				
NEW TRAVELERS	$84.8 BILLION	$15.9 BILLION	$1.3 BILLION	$16.5 BILLION

DATA: COMPANY REPORTS, BUSINESS WEEK

**SEPT. 22, '93

Commentary/by Mike McNamee

THE HEALTH PLAN COULD STAND A DOSE OF REALITY

While President Bill Clinton in his Sept. 22 speech reached for soaring rhetoric to rally the nation to his fight for health-care reform, his aides are more down-to-earth. Clinton's leading economic officials have signaled that they are willing to be flexible—supremely flexible—as the overhaul works its way across Capitol Hill.

They'll have to be. While employers, health interests, and politicians applaud Clinton's push for a secure and affordable health-care system, the details of his package are problematic. The complex blueprint too often depends on government controls—price caps on insurers—and on state bureaucracies. It undermines the progress that business and medicine have already made to contain costs. And the promise of coverage for all by 1998 isn't backed with the needed funding.

There are several better approaches. Indeed, Senate Republicans and House Democrats have put forward more realistic health-policy plans that sidestep the land mines that could explode Clinton's program—but still make economic and political sense.

In the end, after listening to business and industry lobbies and taking stock of alternatives, here's what Congress is likely to do:

■ **Rethink insurance reform.** Remarkably, all interests agree on what should be done. Even insurers concede they must return to the business of covering sick people, not avoiding them. A basic package of insurance reforms—barring insurers from excluding consumers with preexisting conditions, requiring automatic policy renewals, and outlawing premiums that penalize the sick—could sail through Congress. Such reforms would relieve the health-insurance fears of many Americans and make insurance more affordable for small businesses.

■ **Take out the tax breaks that shield workers from the true cost of medicine.** To encourage cost-conscious medical buying, lawmakers must cap the tax breaks for employer-paid insurance. Any plan more generous than a standard benefits package will have to be bought with aftertax dollars. Congress will delegate design of the standard benefits to a commission whose proposal would have to be either accepted whole or rejected. That would keep politicians from adding services to satisfy lobbyists.

■ **Let 1,000 HIPCs bloom.** Large employers and medical groups are rapidly overhauling the U. S. health-care delivery system, pushing health-maintenance organizations and preferred-provider networks. States and local business groups are experimenting with health-insurance purchasing cooperatives (HIPCs) that make such innovations accessible to small firms. Clinton's plan would crush those efforts, rolling everyone into mandatory, st run "health alliances." Congress m likely will encourage new groups spring up voluntarily and will sw away the antitrust barriers betw providers.

■ **Let employers and workers figure who should pay for insurance.** Clinto plan would require all employers pay at least 80% of the cost of he coverage for every employee. To of the expense—and economic disr tion—he creates complex system subsidies for sm companies and poor. The Senate plan takes a simp approach: Phase i requirement t Americans buy th own insurance provide vouchers help those who c afford it. Most ployers will still p up the tab.

■ **Make sure promi don't outrun fundi** Clinton vows to p for his subsidies slashing the Medic and Medicaid grow rates, from dou digits to 4.1% by year 2000. Even if cuts don't materiale the subsidies will co tinue. GOP senat have set a more re istic target—a Medicare grow rate—and won't sp the savings bef they are realized. That may delay u versal coverage, but in a debt-ride economy, pay-as-you-go is the only s sible choice.

In upcoming weeks, Clinton will his plan as a uniquely American proach to health care. But it remains be seen whether Americans will v come this revolution in a matter as p sonal as health. An evolutionary p proach is more likely to work fo a nation that both wants and fe s health reform.

McNamee covers health policy fr Washington.

Former Surgeon General C. Everett Koop lending support: The Clintons' plan may be transformed on the Hill

GENCY ROOM: THE WHITE HOUSE SAYS INNER-CITY HOSPITALS WILL GREATLY BENEFIT

AN THE POOR AFFORD EALTH-CARE REFORM?

ıton's plan threatens funding for 1,400 community clinics

usan Fickling, a 41-year-old Harlem resident and Medicaid recipient, prefers getting care at the iam F. Ryan Community Health ter in Manhattan to the local emergency room she used to frequent. Unlike the hospital doctors, who "had an attitude," s Fickling, Ryan's physicians are "caring and understanding." What's more, she make an appointment at Ryan instead of waiting all day, and sometimes night, at the hospital. The center provides full medical, dental, and mental-lth services on a sliding scale. To its many immigrant patients, staff-are bilingual. For the disabled and very sick, the center even provides nsportation.

low, the Clinton health-care plan, unveiled on Sept. 22, threatens to cripple n and the other 1,400 community lth centers across the U.S. By posing to create a new authority provide flexible grants to the es, community-health advocates ry, the plan will undermine the lth centers and other programs geted to high-need areas. They're ticularly anxious about the Administration's intention to replace r $600 million in federal funds h state block grants—money the ters may never see.

Such a move could backfire on the Administration: The centers provide the kind of primary care it is vowing to expand. "If I don't have protection from the feds in terms of funding," says Ryan's executive director, Julio Bellber, "what I have here could be wiped out in a blink of an eye."

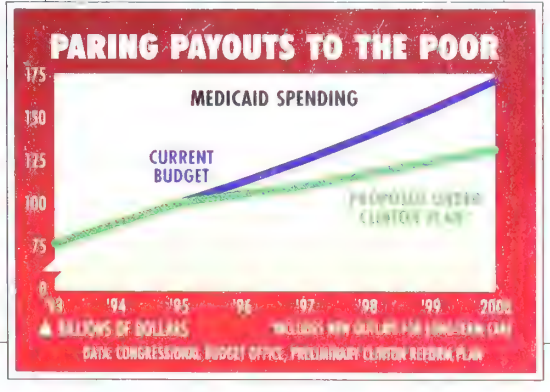
With its guarantees of universal coverage and expanded access, the Clinton plan professes to be a boon for the poor—notwithstanding $114 billion in proposed Medicaid cuts. As now envisioned, the plan will require all insurers operating in a region to contract with clinics and hospitals that treat low-income groups. Subsidies will help the providers and allow the poor to pay their premiums. The Public Health Service will get $1 billion to $1.5 billion over five years to build health-care networks and facilities. The National Health Service Corps also will get a "significant amount of money" to encourage doctors to serve such locations, says Ira Magaziner, the top White House health-care aide.

But critics believe the Clinton plan risks hurting the institutions that have long provided care for the downtrodden—from community health centers to public hospitals—and that depend on federal subsidies to survive. They worry that the plan's budget-slashing will leave them with less than they already have, just when they're forced to compete for patients with powerful provider networks and more modern private institutions. The hospitals, in particular, are concerned about paying for care of illegal immigrants, who are excluded from the plan but can get emergency care. The plan, says Bruce Goldman, executive director of Harlem Hospital Center, "could leave us in a worse situation than we [had] in the first place."

Critics charge that the plan also leaves unanswered other tough questions affecting the poor. It doesn't completely resolve, for example, how the White House plans to fulfill its pledges of low-income subsidies and public-health funding when the financing is shaky at best. Despite provisions barring health plans from discriminating, it leaves unsettled how alliances will police them. And although it specifies that providers catering to the poor will be paid more, the plan doesn't ensure that health plans will market their services in low-income areas—and, if they do, that they will in fact provide quality services.

BEARING THE BURDEN. Managed-care providers dispute criticism that they've sought out the affluent, who tend to be healthier and thus more profitable to treat. The Kaiser Foundation Health Plan for the Southern California Region, for one, maintains hospitals and clinics in poor areas such as East Los Angeles, says Jerome Ashford, health manager for the plan. Kaiser, which has 2.2 million members, has agreed to increase its state Medicaid enrollment by 20,000, to 66,000 members, under a state push to bring low-income people into managed care. "We feel confident we bear our full share of the burden," he says.

When poor people belong to health-maintenance organizations, though, they may fare less well than other groups. A Rand Corp. study in the 1970s, still considered a valid landmark, compared fee-for-service patients with those in a nonprofit HMO. It found that poor, high-risk HMO patients reported "more serious symptoms and were even at greater risk of death." While noting that the finding is not conclusive, Rand researchers warned it raised the "pos-



sibility that poor people may suffer from the side effects of what are otherwise apparently sensible health policy reforms, even when the majority of the population gains from them."

Two recent studies, by contrast, found that Medicaid recipients in HMOs suffer "no adverse outcomes," says researcher Dr. Nicole Lurie, a University of Minnesota associate professor. But those HMOs that have had experience with such populations and provided protections that are typically unavailable in Medicaid managed-care plans. Medicaid patients studied, for instance, were not segregated into separate plans. And to prevent the plans from "skimming" the healthiest recipients through targeted marketing, independent brokers were hired to educate patients about their options among health plans and doctors.

Such findings could remain the exception so long as the Clinton plan lacks similar protections. Clintonites assert that the most important feature for the poor is the plan's basic structure: the creation of huge health alliances that will monitor care. Currently, there are no assurances that Medicaid recipients have access to a doctor and actually get care, says Paul Starr, a member of health-care-reform task force. But cause Medicaid recipients, with some ceptions, will be rolled into the allia he says, health plans will be account for providing "real access to care."

Fickling, for one, hopes the W House pulls it off. If so, she and mil of other poor Americans will no lo have to worry about having their he care needs met—or spending the n in the emergency room.

By Michele Galen in New York, Mike McNamee in Washington and Schine in Los Angeles

Commentary/by Amy Borrus

ON THE EXPORT FRONT, THE COLD WAR STILL RAGES

In a move designed to cheer its high-tech corporate supporters, the Clinton Administration is readying proposals to ease restraints on a wide range of computer exports. The Commerce Dept. is likely to reveal its plans to relax controls on Sept. 30, as part of a long-awaited package of export-promotion reforms. Later this fall, the government may adopt a narrower definition of supercomputers—now the subject of stringent export licenses.

Welcome as such steps are, they don't go far enough. Computer makers are preparing powerful new products that will still be subject to the worst of the export red tape. And despite the end of the cold war, the rule changes initially would apply only to sales to allies.

High-tech executives want the Administration to go further. At stake, says J. David Richardson, a fellow at the Institute for International Economics, is $30 billion in exports that U. S. companies lose annually due to the restrictions. "We're still operating with a cold war mentality," says Richardson.

LITTLE RELIEF. Still, companies from California's Silicon Valley to Boston's Route 128 corridor are glad to see any movement by Washington. The Administration plans to liberalize export controls on computers that perform up to 110 million theoretical operations a second (MTOPS). That would end licensing provisions that have blocked exports of popular products such as Silicon Graphics Inc.'s Indigo workstations.

But the rollback of restrictions won't help for long. "By the end of '94, our products will exceed that limit," says Michael H. Morris, a vice-president at workstation maker Sun Microsystems Inc. And the new rules would provide no quick relief for companies that want to sell to the booming markets in China and the former Soviet Union. Those exports are governed by the 17-nation Coordinating Committee on Multilateral Export Controls (COCOM), which restricts shipments of civilian goods that can be diverted for military purposes. After relaxing the rules on sales to allies, which the Administration can do unilaterally, it plans to seek changes in COCOM's regulations.

That may be tough. European members, led by Germany, want the U. S. to ease restrictions on advanced telecommunications gear in exchange for relaxing computer curbs. But U. S. security agencies have fought such a deal because looser controls on fiber-optic-transmission equipment would hinder their ability to eavesdrop. For similar reasons, the agencies are against easing controls on encryption software (page 43).

It's up to President Clinton to break the bureaucratic impasse and push more sweeping export-control revisions. He can start by overruling the spy agencies' objections to liberalizing the sale of fiber-optic lines. The rapid spread of technology is making most of the restrictions academic. Computers that surpass the 110-MTOPS level are readily available in Taiwan and South Korea, which aren't members of COCOM. China already has facilities capable of producing fiber-optic gear.

BAD GUYS? The U. S. could also push hard to draw Taiwan, the former Soviet republics, and other developing nations into weapons and high-tech export-control clubs. Washington could entice them with trade concessions or other benefits.

Enlarging COCOM while scrapping its traditional East-West focus will be tricky. The U. S. and its allies don't always agree on who the bad guys are. Right now, for example, the U. S., Europe, and Japan are at odds over how much to restrict trade with Iran. Such differences can probably be overcome, but that will require more political initiative than the Administration has mustered so far. And unless Washington moves quickly to resolve the squabbles, its ballyhooed campaign to beef up export promotion won't live up to its billing.

Borrus covers foreign policy from Washington.

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UNITED AIRLINES

TRADE

WILL NAFTA'S BIG BRASS BAND EVER GET IN STEP?

The pro-pact lobby isn't getting its message across. Its opponents are

Right about now, business backers of the North American Free Trade Agreement should have their lobbying machine in overdrive. Corporate America is united behind the pact, and its war chest is chock-full. But as the battle over creating the trade bloc intensifies, there are signs that Big Business' enemy isn't anti-NAFTA ringleader Ross Perot, but itself.

Understaffed, disorganized, and without a clue how to conduct a grass-roots campaign, the main business umbrella group, USA NAFTA, is still flailing about just weeks before a congressional vote on the pact. The group's TV advertising has been panned by political pros as uninspired. Corporate leaders who say they desperately want an agreement aren't willing to step into the ring against Perot. And the group squandered precious time convincing Lee A. Iacocca to act as spokesman and savior.

As a result, the message of NAFTA foes—that millions of factory jobs could be lost to Mexico—go unanswered, and the public's worries about the pact are growing. "NAFTA supporters can complain all they want that the figures are being distorted, but they're not getting their message across," says GOP pollster Ed Goeas. A mid-September Gallup Poll shows that some 41% of Americans now oppose the pact. That's up from about 33% in polls taken over the summer.

JERSEY WHIRL. USA NAFTA head Lawrence A. Bossidy, chief executive of AlliedSignal Inc., knows that corporate supporters need to put on a big push. "We need to get as many CEOs as we can involved out there with a broad-based message," he says. So what's Bossidy doing? He took the stage in Washington briefly to ballyhoo NAFTA's benefits on Sept. 14, as Clinton signed ancillary agreements. But Bossidy plans no more public appearances. He says he prefers to raise money and coordinate strategy for USA NAFTA by phone from his New Jersey office.

Money, however, is the least of the pro-NAFTA lobby's worries. What backers need now is someone who can get the message across as well as Perot. But corporate CEOs have been reluctant to enter the fray, partly because their participation could reinforce Perot's charges that NAFTA is a Big Business conspiracy to shift U. S. jobs to Mexico. "It's a cultural thing," says one business lobbyist. "They can't see themselves arguing with Perot on a talk show."

Even getting retired Chrysler Chairman Iacocca to sell NAFTA has proved difficult for the Administration. While the White House was ready to trot out Iacocca on Sept. 23 for a NAFTA endorsement, BUSINESS WEEK has learned that he remains reluctant to appear in pro-NAFTA TV ads. In discussions with White House strategists, Iacocca expressed concerns that such ads could undermine contract talks between the United Auto Workers, which opposes NAFTA, and the Big Three auto makers. The negotiations won't be completed before late October.

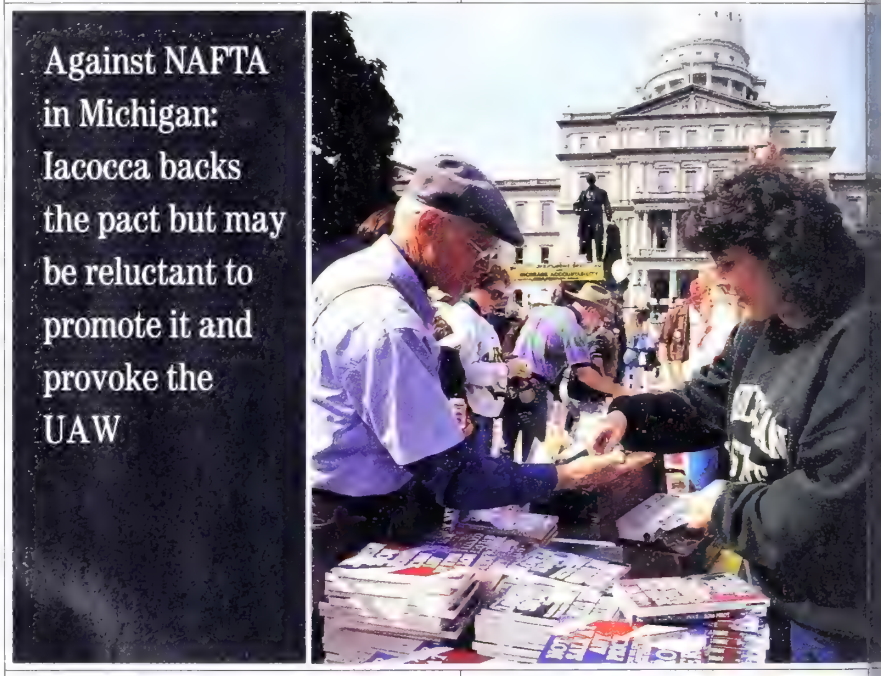
That may be too late to rescue a trade pact that doesn't have enough votes to pass the House. A closer look at the pro-NAFTA campaign reveals a late-starting effort that's way behind the anti-NAFTA crusade. An umbrella group of 2,700 companies that support the pact, USA NAFTA has hired longtime Democratic consultant Anne Wexler to run the grass-roots campaign. But it won't begin in earnest until early October. Perot and other NAFTA critics have pounded the pact for months. And they got a big boost on Sept. 21, when House Majority Leader Richard A. Gephardt (D-Mo.) announced his opposition to the accord.

The advertising drive to save NA isn't much further along. It's being handled by the political ad firm of Clin insider Mandy Grunwald, with production chores falling to veteran Democr strategist Francis O'Brien. O'Brien s that ads are just beginning to ext beyond Washington to other parts of nation. Ad experts say the commerc will have to offer a lot more than dorsements for the pact from for Presidents Ford, Bush, and Carter. deed, *Tonight Show* star Jay Leno cently joked that the pact was be endorsed by "three out-of-work Am cans."

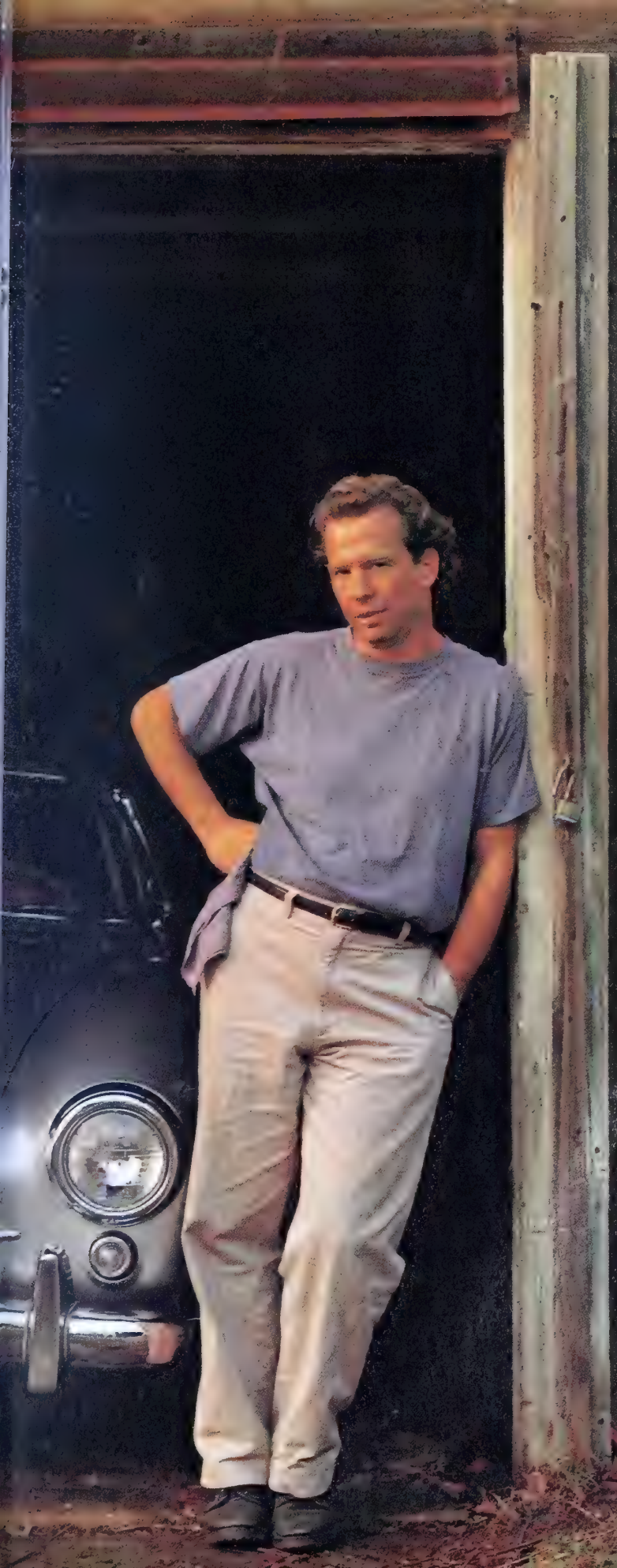
One of the biggest stumbling blo for the pro-NAFTA forces is their re tance to use perhaps their most pow ful argument: As free traders, the c can't bring themselves to trumpet fact that some of the treaty's protecti ist-oriented provisions, such as cont rules, could prompt foreign competit to shift more production to the U. S.

At this point, many CEOs are frustr ed that Americans are so lukewa about NAFTA. "We fail to understand this country the number of high-pay jobs lost at home when we shut o selves off from other markets," sa Jerry R. Junkins, CEO of Texas Inst ments Inc. It's a compelling argume but unless executives and pact partisa get the story out into the heartland, may not count for much when Congr begins to determine NAFTA's fate.

By Douglas Harbrecht, with Susan Garland in Washington and bure reports



Against NAFTA in Michigan: Iacocca backs the pact but may be reluctant to promote it and provoke the UAW



"...so I pick up the phone and it's my PaineWebber guy.

He asked about my retirement plans. I said, c'mon, you're about 20 years too soon.

And I didn't think anymore about it. Until I happened to visit my old boss. What an eye-opener. He's sure not living like he used to ...you know, when he was working.

Next day I called my broker back and said, 'What were those questions again, about retirement?'

And we figured out how I should be putting something away now.

I know I'm not going to need that money for a long time. But it sure feels good—dealing with a company that'll be there when I'm ready...and knowing I'll have the kind of retirement I want. Because I have a broker who asked."

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LABOR

THE FORD DEAL WON'T THROW GM INTO A SKID

Despite the doomsayers, the company should be able to cope

When Ford and the United Auto Workers agreed to a new contract on Sept. 15, pundits predicted the deal would cripple rival GM. Reeling from a three-year, $17 billion loss in North America, the argument went, General Motors Corp. would need major concessions in health care and other areas to help it climb out of the ditch. In fact, predicted doomsayers, the new contract would actually boost Ford Motor Co.'s cost advantage over its archrival.

True, the terms of the new three-year pact would hit GM harder than Ford. The deal provides healthy pay hikes, fatter pensions, and the same generous income-security provisions that cost Ford $558 million and GM nearly $3.35 billion over the past three years (table). These provisions would jack up GM's hourly labor costs by nearly 4% a year, to $48.90 an hour by 1996, figures J. Gerard Paul, an analyst with Sanford C. Bernstein & Co. By contrast, costs at Ford will only rise 3.3%, to $44.55, primarily because it plans to hire aggressively and the deal allows it to hire new workers at 70% of full pay.

CARBON COPY. But none of this will kill GM. More than anything, the new contract is a carbon copy of the one GM negotiated in 1990. Moreover, the entire auto industry is pulling out of the recession that hammered profits in recent years. GM has cut more than 62,000 union workers since 1990 and is slashing materials costs by $4 billion annually. While UAW bargainers have done little to help President Jack Smith reach his goal of breaking even in U.S. auto operations, neither have they significantly added to his woes. "GM can cope," says Morgan Stanley & Co. analyst Scott Merlis.

The ongoing sales recovery will certainly help. Carmakers will sell roughly 13.8 million vehicles this year vs. 12.3 million in 1991. And analysts believe sales could hit 16 million by 1996 as old clunkers conk out and need to be replaced. Even if GM's market share slips slightly from the current 33.8%, every sales increase of 1 million units will boost GM's volume by roughly 300,000. That will help keep factories humming and UAW workers out of the company's expensive safety net.

Even so, GM and union officials know that the company must shed workers to match rivals' productivity. Insiders say GM's goal is 220,000 hourly workers by 1996, down from 267,000 now. Normal attrition, which union leaders say runs at roughly 9,000 workers annually, will take care of some 27,000 jobs. And a Ford-type deal would allow GM to buy out the other 20,000 with early-retirement packages such as the one that attracted 16,500 UAW members in March. Stephen P. Yokich, the combative vice-president in charge of GM for the UAW, has repeatedly endorsed that approach.

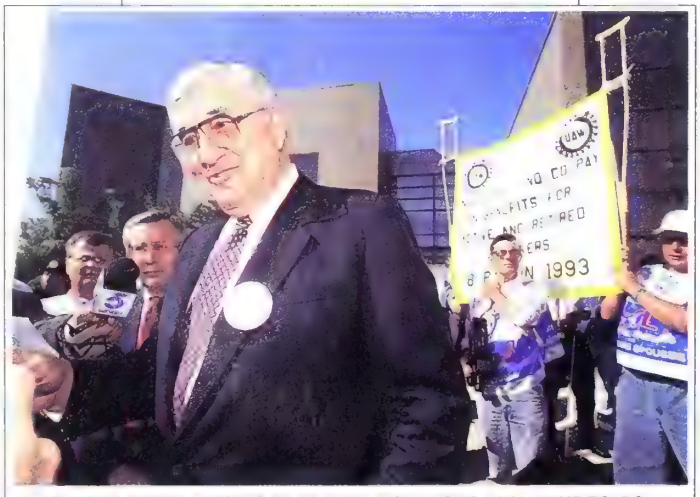
Coaxing workers into retirement helps cut GM's costs. Each retiree costs roughly $28,000 a year vs. about $40,000 for a worker on long-term layoff, says Daniel D. Luria, a labor specialist at Industrial Technology Institute in Ann Arbor, Mich. That means even a generous severance package pays for itself in a year or two. And the more workers it buys out, the less it will have to tap its income security fund.

Of course, adding retirees strains the pension fund, which is already about $20 billion underfunded. But even that problem has been exaggerated. If overall U.S. sales hit 16 million units by 1996, GM's cash flow would probably be healthy enough to take care of the deficit, says Prudential Securities Inc. analyst Philip K. Fricke. Meanwhile, GM plans to ease credit-rating agency fears by using proceeds from a planned stock offering to pay down the shortfall in the next year or two. "If the auto cycle is what I think, the pension liability takes care of itself," says Fricke.

WILLING TO BEND. GM will likely face off with the UAW by mid-October, after the union wraps up talks with Chrysler Corp. Union President Owen F. Bieber says he wants GM to follow the pattern set at Ford and Chrysler. But he has also signaled a willingness to bend the pattern slightly in GM's favor. GM will likely ask for provisions such as the freedom to move workers off workers to any GM plant. Now, workers can turn down jobs more than 50 miles from home.

No matter how tough the talks get, no one expects a big strike at GM. Neither side can afford a prolonged standoff, with Japanese rivals poised to grab market share. The company's activist directors, although concerned about GM's labor costs, have agreed not to meddle in labor relations, says a source close to the board. They're "taking a hands-off attitude." On both sides, Smith has spent the past year trying to mend fences with the union, shifting production of some Chevy Cavaliers from Mexico to the U.S. and saving a Livonia (Mich.) parts plant from the ax. In a few weeks he likely will grit his teeth and make nice across the bargaining table.

By David Woodruff in Detroit



UAW BOSS BIEBER KNOWS THAT EVEN MORE JOBS WILL HAVE TO GO

THE FORD MODEL

The UAW's new contract with Ford, which will serve as a model for GM and Chrysler, will raise auto makers' costs by some 4% a year. Here's what the pact includes:

- A 3% wage hike, followed by 3% bonuses
- An additional cost-of-living adjustment to wages (equal to about 90% of the inflation rate)
- Diversion of $147 quarterly from wage increases to help pay for health care
- A pledge of $1.2 billion to compensate laid-off workers
- Reduction of starting pay for new hires to 70% of base pay, from 85%

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ADVERTISING

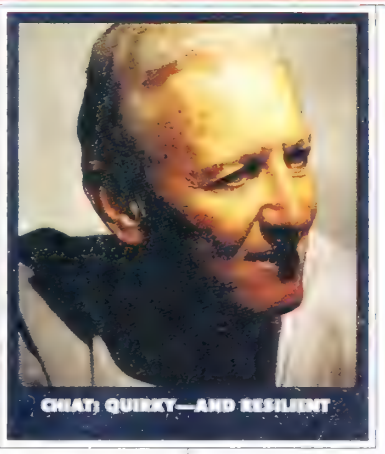
IT'S REEBOK OUT —AND NISSAN IN

For every big loss, Chiat/Day lands another hefty winner

For more than 25 years, Chiat/Day Inc. has hung on to its image as the archetypal West Coast shop—brilliantly creative, if a bit quirky and undisciplined. The Venice (Calif.) firm also is known for advertising that spotlights itself over the client's product, for favoring razzle-dazzle over marketing depth and discipline—and for losing its clients. These days, though, the ad world is talking about Chiat's uncanny ability to bounce back from adversity.

The latest crisis struck Chiat/Day's New York office. On Sept. 14, Reebok International Ltd. abruptly fired Chiat/Day, handing the $80 million in U.S. billings to Chicago rival Leo Burnett Co. Six days later, Chiat/Day took out provocative full-page ads in the *Los Angeles Times* and *The New York Times*. "Now we know how Dan felt," they read, referring to Olympic hopeful Dan O'Brien, who starred in a $30 million Reebok campaign last year and then failed to qualify for the U.S. decathlon team. O'Brien later shattered a world record. Chiat's ad ends: "You haven't heard the last of us, either."

Then, serendipity. The day the ad ran, Nynex Corp. consolidated all of its media buying at Chiat/Day. Income from the new activities will replace about half the Reebok business, says Chairman Jay Chiat. The agency is also a finalist for IBM Personal Computer Co.'s $40 million U.S. account, to be awarded in October.



CHIAT: QUIRKY—AND RESILIENT

"It's remarkable," says James K. Agnew, who heads advertising startup iPlus+ Inc. in Santa Monica, Calif. "Every time they lose a string of business, they manage to immediately replace it." Adds Guy Day, who split with Chiat and left the agency in 1986: "It has to do with Jay's approach to getting whacked: That's when he's at his very best."

LOCAL HERO. Chiat has had lots of practice at both. Last year, his New York operation lost $80 million in business from Lehman Brothers and its parent, American Express Co. But in November, the agency landed the prestigious Infiniti luxury car account—$90 million in billi Parent Nissan M Corp. USA now counts for more t 40% of Chiat/Day's timated $850 millio billings.

Reebok was ha with Chiat/D work and expects use its Planet Ree campaign thro 1994 "and beyor says David G. Ro Reebok vice-presid The problem: w Chiat/Day had c ed Reebok's first global campaign didn't have the worldwide resource service it, Ropes says. Ironically, C abandoned an attempt to go global November, selling its once prized A tralian shop, Mojo, to Foote, Con Belding. Mojo, acquired in 1989, was linchpin in a plan to turn Chiat in full-service, worldwide contender.

But Chiat may be able to do just as a domestic shop. Its unusual ad already resulted in some "interest calls, Chiat claims, including one fro sports-apparel company. No, not N he says. Hmmm. "Planet Convers "Planet Adidas"? Stay tuned.

By Larry Armstron Los Angeles, with C frey Smith in Bosto

STRATEGIES

NIKE'S NEW TREADS

Golf shoes and promotion may not make up for the slide in sneakers

At the end of Nike's annual meeting on Sept. 20, Chief Executive Philip H. Knight called for questions. Phoenix Suns star and Nike endorser Charles Barkley bounded up from the back. "Did I hear that something happened to $1 billion of yours?" he asked, referring to Knight's massive Nike Inc. stock holdings.

Shareholders laughed at the jab, but that doesn't mean they were happy: Nike's stock price has dropped to about $44, from $90 last November. At the meeting, they heard Nike was slipping further. After a disappointing 7% drop in net income, to $114 million, for the quarter ended Aug. 31, Knight says both sales and earnings will fall in the current fiscal year. To cope with the slide, Knight will cut expenses at least $50 million and trim at least 300 jobs.

It's Nike's worst downturn since 1987. In the five years since, it has confounded critics by posting average annual profit growth of 29%. But U.S. athletic shoe sales—which account for 56% of Nike's revenues—now have peaked at about $6.1 billion, as consumers increasingly turn to more moderately priced, comfortable casual shoes, such as Timberlands, Doc Martens, and rugged hiking boots. Rival Reebok International Ltd.'s results also have suffered: Sales this year are expected to drop 3%, to $2.9 billion.

WORKOUT WITH DOC MARTENS

WARM-UP GEAR. Knight calls the downturn "a little bump." And in fact, Nike hasn't bowed to grunge fashion, betting that consumers will keep buying "authentic athletic" shoes and clothing. But the company also has moved to balance the decline in its biggest category, basketball shoes, with new divisions for soccer and golf, mar it had barely penet ed in the past. It begun marketing forms and warm gear to college tea And in January bought Sports Spe ties, a California maker. Nike plans to hook up Creative Artists A cy to produce sp events.

Still, none of th offshoots matches profitability of Ni core busines That's why it must search overseas growth. Nike says it's gaining ma share in Europe, with about 20% r and it's investing $75 million in a warehouse in Belgium. For now, potential seems locked up by reces and limited spending power. But de graphics point to tremendous opport ties: In the U.S., there are four pe for every pair of Nikes; France has Japan 50, and China 11,821. That's of Air Jordans waiting to be sold.

By Dori Jones Yang in Beaverton,

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Bill Marriott

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In Business This Week

EDITED BY KEITH H. HAMMONDS

SUPREME TESTS

A primer on business-related cases the Supreme Court will take up when it begins its new session on Oct. 4:

CIVIL RIGHTS ACT Justices will decide whether this 1991 law applies to cases pending at the time of its November, 1991, enactment. If so, businesses could be socked for millions of dollars in damages in hundreds of lawsuits.

SEXUAL HARASSMENT The high court will decide whether an alleged victim of sexual harassment must prove psychological suffering because of the harasser's conduct.

SECURITIES FRAUD The justices may decide whether individuals can be held liable for violating federal securities laws if they simply acted irresponsibly and didn't knowingly commit fraud. A lower court had held a bank liable as an "aider and abettor" for an alleged Colorado municipal-bond fraud because it failed to prevent allegedly misleading financial disclosures.

DATA: BUSINESS WEEK

FIRE SALE AT COMPUTERVISION?

▸ Not so long ago, it was one of the world's leading minicomputer makers. Now, Computervision just keeps getting smaller. According to customers and employees, the troubled Bedford (Mass.) company, formerly called Prime Computer, is considering selling some or all of its $600 million computer-repair business to retire debt. A Computervision spokeswoman declined to comment. But cash reserves have dropped 30% this year, to $66 million, and the company still owes $348 million in long-term debt. Its market capitalization, about $150 million, is a scant 16% of annual revenues. A sale could ease the pain for Lehman Brothers, which still holds a 22% stake from Prime's '89 leveraged buyout.

CLEAN IT ISN'T. CLOSED IT IS

▸ Pity the Japanese trade team. It must be rough arguing that Japan's construction market is clean and open when politicians and captains of the industry are being charged with bribery. The latest arrest: Teruzo Yoshino, 75, chairman of Shimizu. Yoshino is accused of bribing the governor of Ibaraki Prefecture $10 million for civil-works contracts. Despite the scandals, Japan continued to stall in the latest round of construction talks on Sept. 17-18. The U. S. is insisting that Japan adopt "objective criteria" such as foreign market share and has threatened to impose sanctions if there's no progress by Nov. 1.

MARKHAM LANDS A JOB

▸ The "personal" reasons Richard Markham cited for leaving Merck as president in July apparently aren't consuming enough to derail his ambition to run a drugmaker. On Sept. 21, Marion Merrell Dow named the 42-year-old supersalesman its president and chief operating officer. Markham never explained his sudden departure from Merck in July, but those close to the company say he lacked the backing of other top execs. Marion can certainly use Markham's marketing savvy: It scored with such products as Seldane and nicotine patches but is now facing challenges because of expiring patents on some key drugs.

TALK ABOUT PRODUCT PLACEMENT...

Nothing warms a marketer's heart like a big-time—and free—celebrity endorsement. Say, from the Pope, who slipped on a pair of K-Swiss tennis shoes (white, with gold laces) during his August trip to Denver.

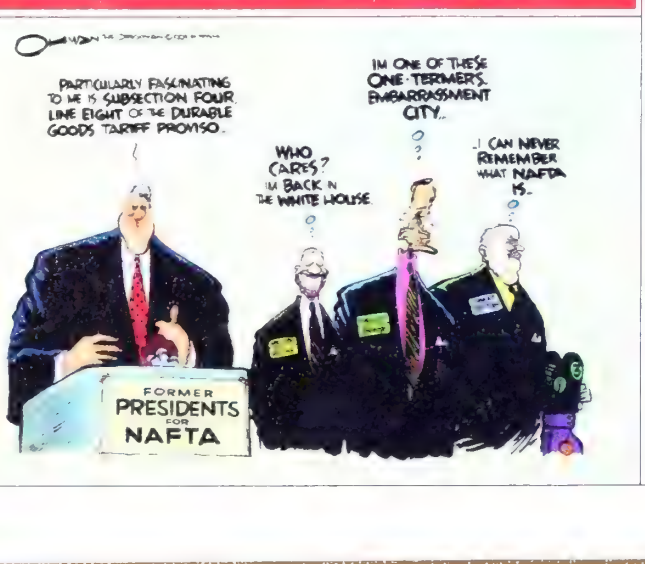
So imagine the excitement at Pilot Pen on Sept. 10, when TV cameras zoomed in for a close-up of Israeli Pr Minister Yitzhak Rabin signing the document recognizing Palestine Liberation Organization—with a Pilot Precise rol ball. Handed such a "marvelous, once-in-a-lifetime opport ty," Pilot President Ronald Shaw ran with it. Within 10 d nationwide newspaper ads trumpeted: "There's a line betw war and peace. This one was written with a Pilot." What PLO Chairman Yassir Arafat use? "We got photos, blew th up, and there was absolutely no way we could figure it o Shaw says. But he swears it wasn't a Paper Mate.

ANOTHER ROUND OF MICROSOFT VS. NOVELL

▸ Microsoft and Novell tend to express their mutual dislike in the marketplace. On Sept. 21, Microsoft, the leading PC software maker, dramatically slashed the price its new Windows NT vanced Server program. will charge a flat fee of $1, for the software, giving av the versions for additional on a network—and dram cally undercutting Novell. vell, meanwhile, is bundlin version of the Unix operat system with its popu NetWare. Novell bought rights to Unix from AT&T June for $350 million. N the company will sell a rea to-use version of Unix to m ers of PCs and workstation

ANHEUSER-BUSCH GOES LIGHT

▸ Count Anheuser-Busch the latest casualty on the v ue-pricing battlefield. C sumers are trading do from premium-brand pr ucts—such as Anheuse Budweiser—and price com tition is battering its bak and Eagle Snacks units. the $11.6 billion giant is t ing a $565 million restruct ing charge in its fiscal th quarter. That will cover 1,(job cuts, or 10% of the sa ried work force, as well a salary freeze on all white-c lar workers. Anheuser also expected to close some Can bell Taggart bakery plants



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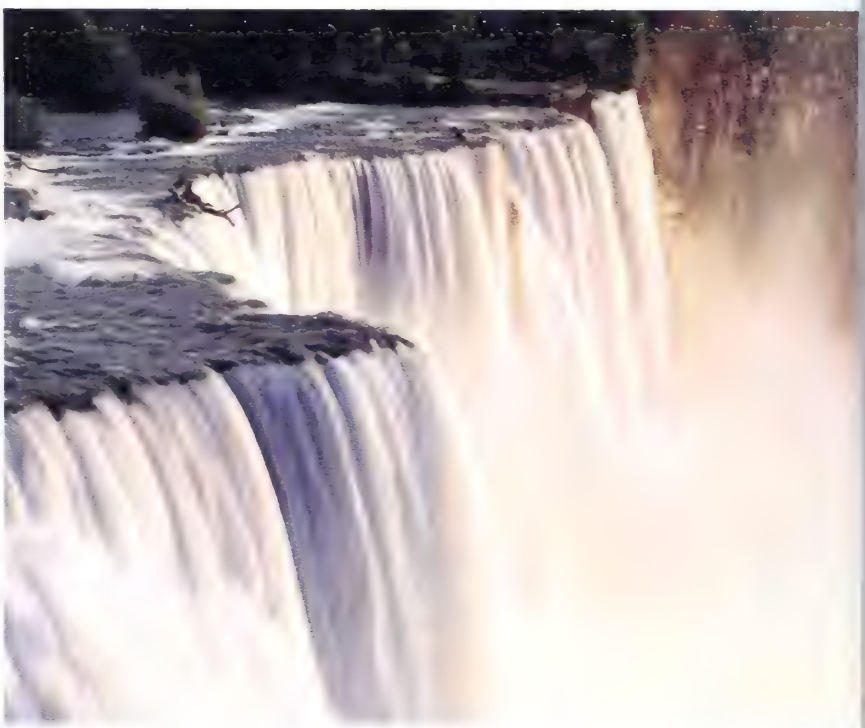
cus·tom·er·ize (kŭs-tə-mə-rīz) *vt.* **1:** to make a company more responsive to its customers and better able to attract new ones **2:** to customerize an organization's information strategy, e.g., to extend systems capabilities to field locations and other points of customer contact and support **3:** what Unisys Corporation does for a growing roster of companies and government agencies worldwide *syn* see CUSTOMER SERVICE, COMPETITIVE EDGE, BUSINESS SUCCESS, REVENUE GENERATION



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EDITED BY STEPHEN H. WILDSTROM

PY VS. COMPUTER NERD: HE FIGHT OVER DATA SECURITY

hilip Zimmermann wanted to strike a blow for freedom. To help computer users keep data safe from snoopers, the Boulder (Colo.) software consultant and self-de-ɔed "privacy activist" wrote a program making it easy to ɔde messages with an all-but-unbreakable cipher. And he red it free through the network known as the Internet.

low, Zimmermann's gift to cyberspace has exposed an mous gap in the Administration's vision of a high-tech fu-. The White House is promoting a data superhighway key to a competitive future. But the National Security ncy is trying to restrict the use of quality encryption, which experts be- business will need to take full advan- of the "information infrastructure."

he focus of the fight is a program mermann calls "pretty good privacy"). On Sept. 9, two software companies exas and Arizona that have been in- ed in publishing PGP received federal nd-jury subpoenas requesting docu- its and information about the program.

CKDOWN. Although the government n't discuss the investigation, the com- er world has a pretty good idea what's ng on. Because sophisticated encryption ws friends and foes alike to protect mmunications, the software is subject to same export controls as munitions. But PGP has popped up over the world. The probe, says Zimmermann's lawyer, lip Dubois, is aimed at "finding out how it occurred and ether an offense was committed."

Oddly, the crackdown on software comes just as the Admin- ation is loosening export controls on computer hardware. the schizophrenia may be more apparent than real. "I n't think they've got the export policy together enough to split," says a key congressional staffer. The underlying blem, explains Paul Freedenberg, a Washington attorney l export-control specialist, is that "Clinton is very cautious about dabbling in national security. This is an area that has essentially been turned over to the spooks."

GEJDENSON: EXPORT DAMAGE?

Meanwhile, there is growing concern in Congress about possible damage to exports. Quality encryption software "is available from foreign manufacturers... and is easily transmitted using only a long-distance telephone line and a modem," complained Representative Sam Gejdenson (D-Conn.) and a high-powered bipartisan group of colleagues in a Sept. 20 letter to the President. "Yet the U. S. continues to control this computer software as a Munitions List item." Says Douglas Miller of the Software Publishers Assn.: "The U. S. government is succeeding only in crippling an American industry's exporting ability."

While the goal of the NSA and other security agencies—keeping U. S. messages secure while allowing Uncle Sam to read those of both domestic and foreign bad guys—is laudable, technology may be rendering it impossible. "Law enforcers no longer have the inside track," says Eben Moglen of Columbia University law school.

Experts agree that NSA officials are smart enough to see the writing on the wall, encrypted or not. But, says James Bitzos, president of RSA Data Security Inc. in Redwood City, Calif., the agency wants to maintain as much control as possible for as long as possible. Today, intelligence agencies still have a shot at finding "needles in the haystack," he says. "If they lift export controls, they might as well go home."

Still, the NSA can't stave off the inevitable for long. Gejdenson hopes to produce legislation by early next year to revamp government policy on high-tech exports. The result will probably include looser restrictions on encryption software—and a victory for Phil Zimmermann in his battle to keep snoops out of his cyberspace.

By John Carey

PITAL WRAPUP

HINKING AHEAD

The Democratic National Committee, which likes to brag about its fund- aising success this year, must have oney to burn: In early September, ne DNC launched an ad blitz on Phoe- ix television stations to boost the re- ection prospects of Senator Dennis eConcini and to praise the three-term eteran for his "courage" in voting for resident Clinton's budget plan. But n Sept. 16, DeConcini announced his etirement. That wasn't the only em- arrassment. The Arizona spots also raised DeConcini for "leading the fight o cut pork projects" such as the uperconducting Super Collider. Unfortunately, the Clinton Administration strongly supports the SSC, which it considers essential science, not pork.

TABLING WELFARE REFORM

For weeks, it has been apparent to observers that something had to give in the Clinton Administration's vast legislative agenda for the fall. Now, the White House has decided to put off its welfare-reform plan until next year. One reason is the overload facing the Senate Finance and House Ways & Means Committees, which have jurisdiction over welfare. Also, the North American Free Trade Agreement and health-care reform seem to have priority.

FAMILY FEUDS

The North American Free Trade Agreement is causing serious splits among Democrats. But the controversial pact is also putting some prominent political families under strain. Ross Perot, of course, is a leading opponent of NAFTA. But son Ross Jr. manages a Fort Worth airport that stands to benefit if the agreement is approved. He admits to having a difference of opinion with Dad. Meanwhile, Representative Rosa L. DeLauro (D-Conn.) has joined the opposition, while husband Stanley Greenberg's polling will help President Clinton in the fight for ratification.

MARTIN SIMUNI/SABA

GLOBAL FINANCE

THE BUNDESBANK

UNDER HANS TIETMEYER, THE MARK COMES FIRST

On Saturday, July 31, Europe awoke to its worst monetary crisis in years. Central bankers and finance ministers rushed to an emergency meeting in Brussels as a 10-day siege against the French franc threatened to topple the Continent's wobbly system of managed foreign exchange rates. Inside the closed-door session, nerves tightened as a year of currency turmoil and hundreds of billions of dollars of central-bank intervention came down to a single question: Did 40 years of Franco-German partnership at the heart of the European Community oblige the Bundesbank to continue unwavering support for a strong franc linked to the mark?

The answer wasn't long in coming. Banque de France Deputy Governor Hervé Hannoun opened the discussion by calling on his German central bank counterparts to intervene to support the franc, lower short-term lending rates, and convene their policy-making council to reduce the discount rate. Before he could finish, one observer recalls, a sardonic voice cut him off. "You've forgotten a fourth item," said Bundesbank Vice-President Hans Tietmeyer—"that Germany should abandon the mark and its monetary sovereignty."

NO EASING FOR THE MIGHTY MARK

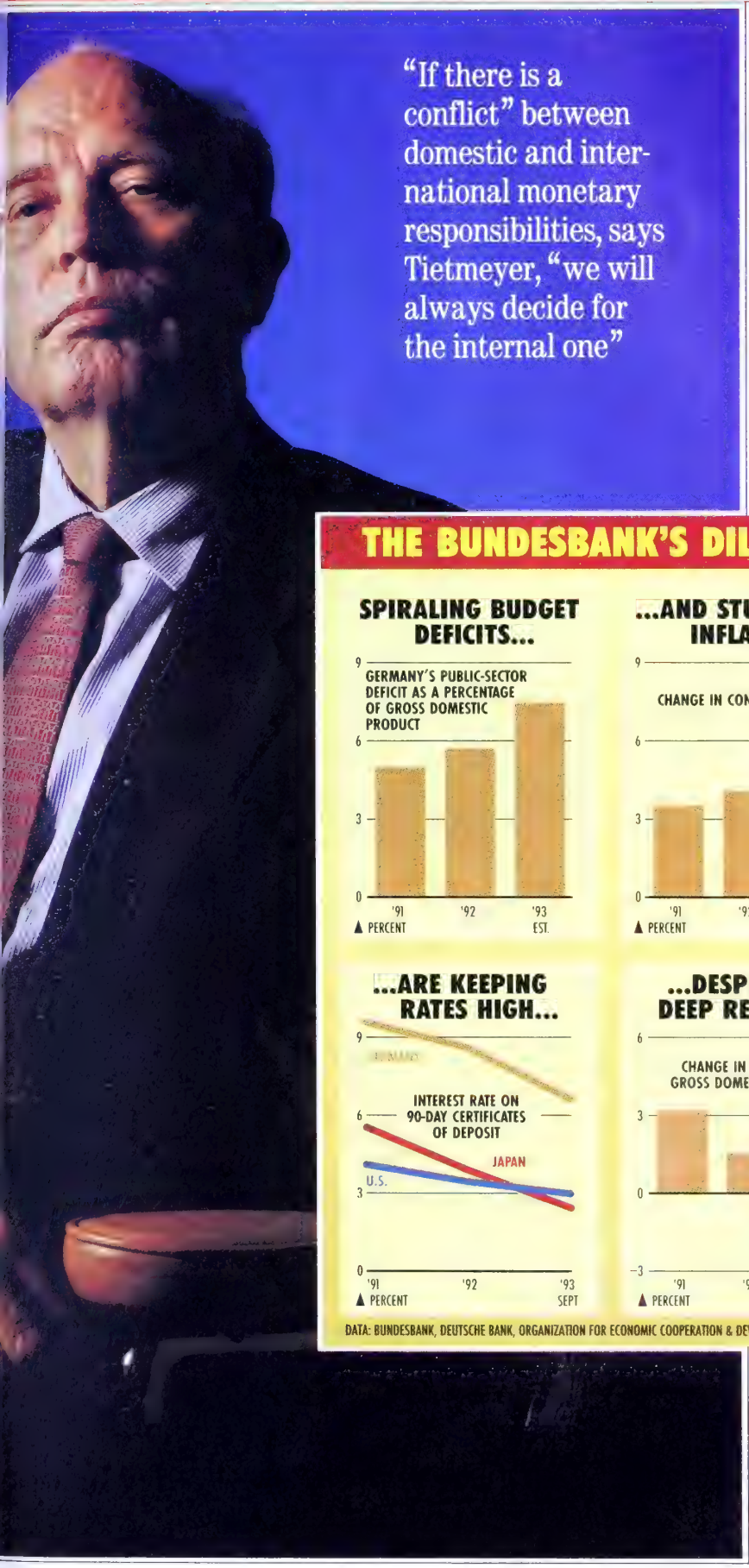
"AN ILLUSION." The mighty Bundesbank had struck again. A year before, it forced Britain into the humiliation of dropping out of Europe's exchange-rate system. Now, it was dashing French monetary pretensions and market expectations that Germany would at least cut rates to help the franc. In so doing, Tietmeyer was laying down the terms for the deal Europe's moneymen would eventually agree to over that weekend: a de facto float for Europe's currencies that would remove pressure on the Bundesbank to slash interest rates or intervene to help its neighbors.

As he sips coffee in his Frankfurt office on a late summer afternoon, Tietmeyer, who on Oct. 1 takes over from the steely Helmut Schlesinger as president of the German central bank, doesn't hide his satisfaction over the outcome of the Bundesbank's power play. The move dashed EC leaders' dreams of establishing a single currency and common central bank as soon as 1997. But "the idea that we could all stick to the exchange rates of the early 1990s was an illusion," he says in an interview with BUSINESS WEEK. In case the EC—or anyone else—is in need of a reality check, he repeats what Europe should by now have learned by rote. "If there is a conflict" between Germany's domestic and international monetary responsibilities, "of course we will always decide for the internal one."

That's a sobering message for a Europe that still hopes to turn its newborn single market into a wider economic and political union someday. Indeed, it's a message the entire Group of Seven industrial nations will have to ponder when they meet in Washington on Sept. 25. On Sept. 21, the Bank of Japan cut its discount rate by three-quarters of a percentage point, to 1.75%, in a bid to rev up the flagging Japanese economy. But until Japan revives, the industrialized world's economy is now firing on only one cylinder: U. S. growth.

Even that is open to question if American exports to Europe continue to be hurt by high German interest rates that have sapped consumer and investment confidence across the Continent. But Tietmeyer, a key player in the global-coordination efforts of the 1980s, has little solace to offer. "A lot of people overestimate the role of the Bundesbank," he says. "Some people feel that our official rates are the key for the world economic recovery. I don't think so. The importance of German short-term rates—and especially Bundesbank rates—are overrated, no doubt about it."

Many others would disagree. Through



"If there is a conflict" between domestic and international monetary responsibilities, says Tietmeyer, "we will always decide for the internal one"

its single-minded campaign against inflation (charts)—and by steamrolling politicians who have gotten in its way—the Bundesbank has at once established itself as the standard-bearer for independent central banks worldwide and as the most prominent symbol of German economic assertiveness in post-cold-war Europe. The Federal Reserve may regard low inflation as a means to sustainable economic growth. But, says a senior Fed official, "the Bundesbank sees it as an end in itself."

To beleaguered Europeans, such anti-inflation crusading translates into 12% EC unemployment (chart, page 46) and the worst recession in 45 years. True, to help ameliorate the slump that followed Germany's brief unification boom, the Bundesbank has lowered its benchmark discount rate by 2.5 percentage points in little more than a year, to 6.25%. But it still has a long way to go to prove that its hard-money philosophy won't drive Germany's exporters into a coma or weaken the economy so badly that it suffers a crisis of confidence and a run on the mark.

ZERO POINT. At worst, some fear, Tietmeyer may end up presiding over a spiral of devaluations that will threaten the EC's free-trade accord and set back four decades of progress toward a European ideal. "It's in the interest of other countries to be very careful," Tietmeyer says. "Competitive devaluations would not only harm German exporters but would bring inflation to other countries and undermine Europe's economic prospects."

But as the recession bites deeper, fewer and fewer Europeans are willing to heed Tietmeyer's warning. Indeed, reconciling the conflicting needs of inflation-plagued Germany and recession-wracked Europe will require a balancing act that will challenge every skill that Tietmeyer has learned in a career as a government official, banker, and Germany's top international money diplomat.

As German public-sector deficits swell toward 7% of gross domestic product—a level approaching Italy's—Bundesbank

THE BUNDESBANK'S DILEMMA

SPIRALING BUDGET DEFICITS...

...AND STUBBORN INFLATION...

...ARE KEEPING RATES HIGH...

...DESPITE A DEEP RECESSION

DATA: BUNDESBANK, DEUTSCHE BANK, ORGANIZATION FOR ECONOMIC COOPERATION & DEVELOPMENT, BUSINESS WEEK

monetarists have found themselves with little choice but to ignore the money-supply targets that guided Schlesinger in his two-year presidency. But Tietmeyer remains adamant about halving Germany's 4% inflation rate and pursuing a long-term inflation target "that must be close to zero, no doubt about that."

Tietmeyer has a lot of time to try to achieve that goal. At 62, he is six years away from the bank's retirement age. And right now, the new president seems as firmly devoted to the central bank's creed as any of his predecessors. Embedded in Germany's constitution is a national obsession with stable prices and a sound currency. It is forged from two episodes of hyperinflation that destroyed Germans' savings and fueled Adolf Hitler's rise to power. Germany's yearning for stability is particularly strong now that it's engaged in the gamble of unification.

"DEEP STAGNATION." Stability in Germany, Tietmeyer says, can be the only response to the inchoate and inflationary capitalism emerging in Eastern Europe and Russia. Indeed, the breakup of the EC's exchange-rate mechanism actually will help him achieve his goal, as it relieved Germany of its costly obligation to prop up its neighbors' currencies. But Tietmeyer will have to act fast. After a 2% fall in the first half of 1993, German GDP could finish the year down by "closer to 3%," estimates Deutsche Bank Chairman Hilmar Kopper. Some economists say Germany may even see a second straight year of contraction in 1994, something it hasn't experienced since the end of World War II. "Germany is in deep stagnation," says Goldman, Sachs & Co. economist Thomas Mayer. "It will take us the rest of this decade to sort out our problems."

By all rights, such economic weakness should permit the Bundesbank to pick up the pace of interest-rate cuts. Even Tietmeyer concedes there is "more realism . . . on the wage front, and more realism on fiscal policy. There seem to be changes in the right direction on the way." As a result, some economists believe that overnight interest rates could fall as low as 4.5% by next year, down from 7% today. But don't count on short-term rates falling to 2% or less, as is the case in the U. S. and Japan. That's because Bundesbankers still fret that Germany's growing deficits could rekindle inflation. Commerzbank chief economist Ulrich Ramm, for example, figures that the $105 billion Bonn pumps into eastern Germany annually now represents half of the region's GDP. "Too much is going into supporting consumption and not enough into investment," Tietmeyer says.

HIGH GERMAN RATES THREATEN FRENCH JOBS

Indeed, Bonn's heavy spending raises doubts about the realism of Tietmeyer's goal of 2% inflation within the next two to four years. Tietmeyer's ability to reduce interest rates and the mark's value thus could be limited. With the mark's trade-weighted strength against the dollar and other currencies now at a record high, that would be bad news for German exporters. But Tietmeyer hints that the exporters won't gain a swift devaluation—something the Bundesbank fears will rekindle inflation. In the 1980s, he says, "industry didn't take enough care in controlling their costs. They had the impression they were competitive, but that was artificial."

To restore his country's competitiveness, Chancellor Helmut Kohl is now banking on consumers to accede to a freeze in living standards for the first time since Germany's economic miracle began in the 1950s. As consumers forgo hikes in wages and fringe benefits and pay more for state-supported medical care, Tietmeyer is bound to face new calls to relieve the stress by easing up. With 1994 a critical election year for Kohl, Tietmeyer will have to keep an eye on politicians in Bonn. Bundesbankers still remember only four years ago, Kohl overrode them on the pace of unification, f[orc]ing the central bank to swap West German marks for nearly worthless East German o[nes] at a rate of 1 to 1.

The dispute prompted Schlesinger's urbane predecessor, Karl Otto Pöhl, to quit. But few see Tietmeyer getting into a similar dispute. Demanding and shrewd, he is nonetheless regarded as far better equipped for the Bundesbank's politi[cal] and internatio[nal] role than the c[on]trinaire Schlesinger, who spent his entire career at the Bundesba[nk] and was often uncomfortable w[ith] diplomacy.

A devout Ca[th]olic and one of 11 children of a lo[w]er Treasury offic[ial] from Westphalia, Tietmeyer bea[rs] few of the pr[i]leged trappings of the French-cuff gl[o]bal money set. He worked his way through the political ranks of Kohl's Christian Democratic party to become state secretary in the Finance Ministry. From there Tietmeyer handled major issues including unification and the Plaza Accord to devalue the dollar. His only known recreational passion is table tennis, at which he was once a high school champion.

Sharp edges lie beneath Tietmeyer's courteous exterior. In fact, British Treasury insiders still seethe over the way they were treated by Schlesinger and Tietmeyer on the eve of the pound's departure from the European monetary grid in 1992. After Italy was forced to devalue the lire, sterling began sinking when Schlesinger stated obliquely that other currency realignments would be needed. But the real damage, the Treasury sources contend, came when Tietmeyer quietly suggested to some traders that the British currency was overvalued. That, the sources say, guaranteed the Bank of England would lose billions of dollars vainly trying to defend the pound. Tietmeyer declined to comment, but a spokesman says the Bundesbank "completely rejects" the report.

The monetary blowup this past summer reinforced the Bundesbank's power. In rolling over the EC's architects and

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but shutting the failing EC foreign exchange system down, the Bundesbank ensured that it will dictate the form of any future European monetary union. Bundesbank clout is such that on Jan. 1, when a precursor to an envisioned EC central bank opens, it's almost certain to be housed in Germany—possibly in a Bundesbank building.

KEY ALLIES. Guiding the fractious European monetary preliminaries along might be a breeze compared with the reception Tietmeyer faces on the Bundesbank's restive 16-member policy-making council. With unification dramatically expanding the council's constituency and responsibilities, the discussions at the council's every-other-Thursday policy meetings have become more democratic and vocal than ever. Tietmeyer's key allies will be those who, like him, regularly aligned themselves with Schlesinger. They include Johann W. Gaddum, who is replacing Tietmeyer as vice-president, and Otmar Issing, the Bundesbank's soft-spoken chief economist and a leading candidate to succeed Tietmeyer someday. A staunch monetarist, Issing has argued for keeping rates up until the Bundesbank hits its 2% inflation target.

The Bundesbank Council is going to have more than recession and inflation to contend with, however. Massive change is sweeping Germany's financial system, transforming the culture the Bundesbank guards. Germany was a bystander during the waves of financial deregulation that swept the U. S., Britain, and other countries during the 1980s. Since unification three years ago, however, the pace of change has been frenetic. That's because Germans are no longer able to finance on their own the $140 billion-a-year public-sector deficits.

Since unification, for instance, the annual volume of mark-denominated bonds issued in the Euromarkets has exploded. Even bigger changes are taking place at home. Germany's eight stock exchanges, for example, are rapidly integrating themselves into a single electronic market better able to handle large trades. And the Deutsche Terminbörse (DTB), opened only three years ago, has seen trading in equity and debt options and futures swell. The DTB is now hooking up with France's futures market as the first step toward creating a Europe-wide network.

DOLE LINE: MORE GERMAN WORKERS ARE GETTING THE BOOT

Corporate finance is also going modern. Like their counterparts in the U. S., German companies are now raising billions through commercial paper to supplement borrowings from their longtime bankers. Everyone from J. P. Morgan & Co. to the Union Bank of Switzerland is winning corporate-finance business away from the likes of Deutsche Bank. Daimler Benz turned to Morgan to help it peddle $2.5 billion in commercial paper in the U. S. and to Goldman, Sachs & Co. to assist it in becoming the first German manufacturer to sell stock on Wall Street. Goldman has also become a dealer in a $6.3 billion commercial-paper program for the Treuhandanstalt, the agency privatizing eastern Germany, as well as in a $1.3 billion program at the government's T lekom phone monopoly.

Managing the swift modernization Germany's markets will pose a daunti challenge for Tietmeyer. But as he a proaches the culmination of his long reer in public life, his most pressing j still will have to be weighing his des for domestic stability against Germany growing role as a European and glob power.

It is critical for Germany, and for t international economy, that Tietmey get it right. The Bundesbank in Fran furt, and not the EC in Brussels, is no setting the agenda for Europe. What th Bundesbank does is going to determi whether a unified Europe anchored by reinvigorated Germany or a continent constant turmoil stands alongside th Americas and Japan as an engine global growth.

"This decade should be about gettin back to realities," Tietmeyer says. " we do that in the first half of the d cade, I'm pretty sure we can have nev prosperous development all over th world." Tietmeyer's version of reality however, may not be a pleasant one fo Germany's allies. For years to com they will have to continue paying th price of a mighty mark.

By Bill Javetski and John Templeman i Frankfurt, with Owen Ullmann in Was ington and William Glasgall in New Yor

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JAPAN

CAN'T GET ENOUGH OF THAT SUPER-YEN

Cheap imports are finally making their way to Japanese consumers

Seven months ago, Tokyo resident Kadowaki Chikafusa paid $84 for a tie at the Brooks Brothers store in Tokyo. Since then, the yen's record surge against the dollar has led the U.S. clothier to cut prices on imported clothes an average of 13%. The same tie now costs $69. In case the point hasn't hit home, signs at the store assure customers that they are enjoying the benefits of the higher yen. "Prices have really dropped," says Chikafusa, who plans on doing some more shopping soon.

A TOKYO MARKET: BEEF PRICES ARE DOWN 9% AND WHISKEY, 22%

For the first time in recent memory, Japanese consumers and companies may be tasting the fruits of cheap imports. They are benefiting from *endaka*, or the high yen, up 16% since September, 1992. Accompanying the latest round of *endaka* have been other changes that are proving a boon to importers from Intel Corp. to Kraft General Foods Inc. "Foreigners are more competitive in Japan than they have ever been before," says Robert Alan Feldman, director of economic research at Salomon Brothers Asia Ltd. in Tokyo.

RAKING IT IN. To be sure, the high yen has yet to pull down Japan's towering trade surplus. But exports are already dropping. In August, export volume fell 1.7% compared with a year ago. If an export lag continues, it could sap what little strength remains in the Japanese economy and dampen the appetite for imports. And over the long run, *endaka* may hurt American companies by making it more difficult to invest in Japan. Such direct investment is essential to cutting the U.S. trade deficit with Japan.

But for now, many importers are reaping the benefits of the lofty yen. Imports jumped a startling 8.5% by volume in August. Prices for imported goods have fallen across the board: A just-released government survey of 34 imported items found that 24 of them dropped in price from January to June. For example, the average price of a bottle of whiskey fell by $7.80, or 22%. Car tire prices declined $9.50, or 11%. The average price for a personal computer dropped $971, or 24%.

Some of the changes afoot may even be threatening relationships among Japan's *keiretsu*, the huge industrial groups that dominate the economy. Take the glass industry, notorious for being closed to outsiders. In early September, the Japanese press reported that trading company Mitsubishi Corp. had decided to greatly expand its imports of flat glass to cut costs. Mitsubishi is in discussions with Guardian Industries Corp., a Northville (Mich.) glassmaker that has long sought access to the Japanese market. By buying from Guardian, Mitsubishi would create competition for its own affiliate, Asahi Glass Co., one of three domestic companies that dominate Japan's glass industry. "We're very happy that are going out of their *keiretsu* and asking us to supply them," says Okawa, executive director for Guardian in Japan.

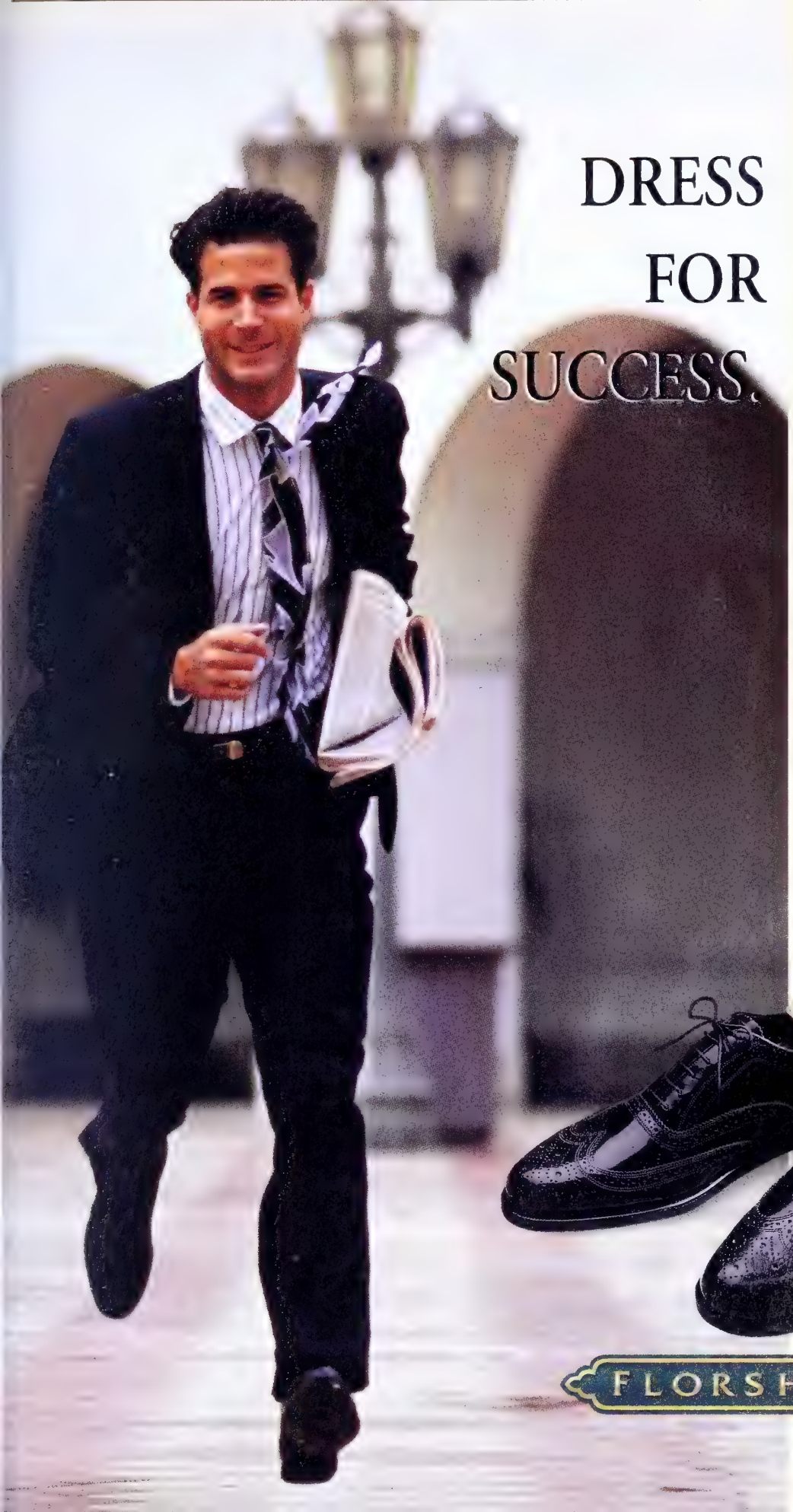
Consumers are also scouting for discounts on imported goods. Osaka-based Nichii department stores will soon expand its chain of "parallel import" stores, which stock such foreign goods as Gucci handbags and Giorgio Armani clothes. Nichii purchases directly from foreign suppliers, thus circumventing the traditional distribution channels that drive up prices so much in Japan.

Tokyo's traditionally producer-friendly bureaucrats are also weighing in on the side of consumers. The Finance Ministry next month plans to make public import cost figures gleaned from customs documents. With such data in hand, shoppers can go to a store, check the price of products, and estimate the markup. "We want to invite consumers to watch the market," says Tsugio Ide, deputy director general of the Economic Planning Agency's price bureau.

NO CELEBRATING. The price-slashing trend is almost certain to continue. Prices for Australian and U.S. beef dropped 9% through July. Utility companies in September applied for permission to cut rates, which would pass along $5 billion in exchange rate savings on imported oil to consumers. And the airline industry plans to boost the maximum discounts they give on fares from 25% to 35% beginning next month.

No one is sure whether trends such as discounting will outlast *endaka* and the current economic downturn. Also uncertain is just how deeply newfound habits of foreign sourcing will take root among inward-looking Japanese companies. But for now, "passing along benefits from the high yen" is the new catchphrase for executives, advertisers, politicians and bureaucrats. Foreign companies and Japanese consumers can only hope that the chorus continues.

By William Spindle in Tokyo



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GAZA

A CLIFF-HANGER CALLED GAZA

Offering both promise and peril, it will be reshaped by tricky bargaining

Looking out from the beach at Gaza City, you might imagine for a moment that you were at a seaside resort as the afternoon sun paints the waters of the Mediterranean a delicate blue-green. But a landward glance quickly jars you back to reality. Mounds of trash mar the scene, and just behind the high-tide mark looms a mass of corrugated metal shacks—the outskirts of a huge, teeming refugee camp.

This is the Gaza Strip, the centerpiece of the interim agreement just signed by the Palestine Liberation Organization and Israel. Under the pact, the PLO next month gains administrative responsibility over the tiny 140-square-mile sandy rectangle wedged between Israel and Egypt's Sinai Peninsula. But Gaza is at best a dubious prize. Creating the conditions for economic growth—which the PLO considers its main task—will be far from easy.

About half of Gaza's nearly 800,000 people are packed into tiny cement-block houses in the refugee camps. They are poor, violence-prone, and radicalized. When the PLO takes over, it will have to launch an infrastructure-spending program quickly to ease Gaza's unemployment rate, which may exceed 50%. Other schemes include a new Gaza port and even a free-trade zone that would make use of the Strip's cheap labor. But the PLO will have to deal skillfully with the Israelis, whose control of the borders gives them a virtual veto over Gaza's economic future.

TOUGH TEST. For PLO Chairman Yassir Arafat, gaining political control of Gaza will also be a tough test. Unlike the West Bank, where Arafat's mainstream Fatah faction has the upper hand, in Gaza the Islamic militant group Hamas has control and seems capable of mounting a strong challenge to Arafat.

Still, Gaza isn't quite as bleak as it seems. The close-knit business community is energized by the prospects of getting Israeli troops off the streets and of loosened Israeli regulations. And Gaza has some assets. Its coastline could be attractive to foreign tourists. It has a small fishing industry. The proximity to Israeli population centers as well as the Jordanian capital of Amman might make a port feasible. Farouk Abu Shark, an architect and chairman of Arab Consultants Group, says he is already getting nibbles from international investors interested in building "very sophisticated, high-standard hotels."

JOBLESS MEN SELL GRILLED CORN ON A GAZA BEACH. WILL FANCY HOTELS SPROUT?

But bringing industrial development to Gaza depends largely upon tricky negotiations soon to begin among the Palestinians, Israel, and Jordan. Despite their hostility toward Israelis, most Gazans still work for them in one way or another. Nearly all of Gaza's roughly $200 million in exports go to or through Israel, with Jordan permitting only about $10 million in goods to cross the Jordan River. Greater trade with Jordan depends on Israel's permitting Jordan products into the territories. Samir leileh, who is emerging as a key econ ic policymaker for the Palestinians, e sions a deal in which Jordan liberali its trade regime with the territo while preserving its financial clout the Jordanians want their banks to bec the territories' chief financial inst tions, and they want the dinar to k circulating along with the shekel.

GRUMBLING MEN. But in economic ter Gaza will probably remain closer to Is el for some time. The Israelis are ready stepping up their use of ch Gaza labor to shore up key industr such as textiles, clothing, and flo production. According to economist lah A. Shafi, director of the Gaza off of the European Community-funded E nomic Development Group, 3,000 to 4,(Gaza garment makers are produci textiles for Israeli companies. So neighborhoods packed with small s ing mills that mostly e ploy young men, incl ing bearded Musl fundamentalists.

Other Israeli com nies will beef up existi ties in the Strip. In fa Gaza sources report th Israeli construction co panies are already lini up Gaza partners to b on the big infrastructu contracts likely to generated by intern tional assistance func The PLO will probab adopt a flexible proach toward Isra business in Gaza cause it cannot afford turn up its nose at jo creating investments.

But 10 days after t signing of the agre ment, whatever hope generated among or nary Gazans is fadin leaving a tinderbox f the PLO administratio At 2 p.m., a group of young men sit the camp's edge, grumbling. The b problem in recent months, they say, h been the closure of the Israeli borde which alone deprived one-fourth of t 120,000-strong work force of jobs. O man had just sold his wife's jewelry buy food. Several had done prison tim for rock-throwing and other protes against the occupation. If Arafat do not deliver, they may soon be flingin stones at him.

By Stanley Reed in Gaza City, with Ne Sandler in Jerusalem

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EDITED BY WILLIAM J. HOLST

YELTSIN PUSHES ALL HIS CHIPS INTO THE POT

The confrontation had been building for months. Russia's Supreme Soviet, elected under Communist rules in the last days of Mikhail Gorbachev, had been blocking just about every piece of reform legislation that Boris Yeltsin wanted. By summer's end, the fighting had taken a nasty turn, with both sides hitting the other with flimsy corruption charges. Compromise appeared impossible.

So, true to form, Yeltsin took a huge gamble. He dissolved the parliament on Sept. 21 and called for mid-December elections for a brand-new bicameral legislature—the Federal Assembly. Moreover, he said he was willing to run in presidential elections shortly afterwards. Yeltsin won quick support from President Clinton and other Western leaders. But only hours later, 147 hard-line Supreme Soviet legislators named Alexander Rutskoi, the Vice-President and Yeltsin's bitter foe, as Russia's new leader. Just as democrats had done in August, 1991, a small and mostly elderly band of die-hard Communist supporters set up makeshift barricades around the seat of Parliament—called the White House. They stood waiting for tanks that never came.

For now, it doesn't seem that the tanks will come. Yeltsin's recent courting of military leaders appears to have paid off. "Yeltsin would not have precipitated this if he were not confident of support by the military," says Michael Stürmer, director of Germany's Research Institute for International Affairs.

If more enlightened lawmakers are elected in December, Yeltsin's efforts to stabilize the economy and build rule of law could could get a big boost. Inflation, now 30% a month, could be quelled by a new budget with smaller deficits. The central bank, now reporting to Yeltsin, will be under less pressure to bail out old state-owned enterprises. There could be a breakup of state monopolies in such sectors as energy and food distribution, which stymie efforts to allow market pricing. And an entirely new range of laws could promote privatization and small businesses.

Yeltsin also succeeded on Sept. 18 in bringing back Yegor T. Gaidar as First Deputy Prime Minister. Among Gaidar's priorities will be liberalizing foreign trade because, he says, "there are too many restrictions." That should be good news to foreign companies hamstrung by exorbitant royalties on exports such as oil and by heavy import duties. What's more, a new legislature could mean clear, modern rules on investment, taxation, and banking—overcoming a strain of Russian economic nationalism that was beginning to emerge. Says Mark Borghesani, a lawyer at Baker & McKenzie in Moscow: "If Yeltsin can pull this of will certainly be a positive development for foreign investo

There are still big risks. Yeltsin's success depends on continued neutrality of Russia's powerful military and secu forces. Aside from his highly visible trips to army ba Yeltsin has packed the overseeing Security Council with lo ists. But it's still possible that the military could change mind in the case of some unexpected event, such as a spr of fighting from the civil war in Georgia into southern Rus Other unknowns are Russia's 89 regions. While Yeltsin s most regions support him, some local legislatures, such those in St. Petersburg and Perm, are badly split betw backing him or Rutskoi. At same time, the regions are manding considerable autono in such matters as taxation natural-resource developme Yeltsin is trying to finesse matter by having the Federat Council, a body made up of gional leaders, act tempora as the replacement for the preme Soviet until elections be held. But three months i long time. In that period, s Andrei Klimov, a Perm eco mist and local deputy, "Yelts forces can lose Russia."

WAGES OWED. Yeltsin must a appease a skeptical work for badly hammered by inflation. ready, wildcat strikes ha sprouted among medical and a ation workers. In the oil-r Tyumen oblast of western Si ria, petroleum workers are ov $40 million in back wages. Na ral-gas workers in the city Nadem, due hundreds of milli more rubles in pay, are threat ing to strike. "People here not so politically minded," s Nikolai M. Totov, a Tyum trade union leader. "But they will strike over back pay."

Finally, Yeltsin must overcome growing apathy among v ers, who loathe Moscow politicians and see market refor clobbering their living standards. Yeltsin has been slipping the polls, and some surprising newcomers, such as radi economist Grigory Yavlinsky, have swept the field. For warning, Yeltsin need only look at Poland, where Sept. 19 el tions produced a big win for ex-Communists. Some Russia are thinking twice about Yeltsin. "I voted for Yeltsin," says tiana A. Fratkina, a Moscow doctor. "But Yeltsin didn't ful his promises to the people, so his popularity has declined. hard to support him." So Yeltsin may have broken the back his Supreme Soviet enemies, but he still faces a long and t turous battle to prove himself to the Russian people.

By Peter Galuszka and Deborah Stead in Moscow, with K en Lowry Miller in Bonn and bureau reports

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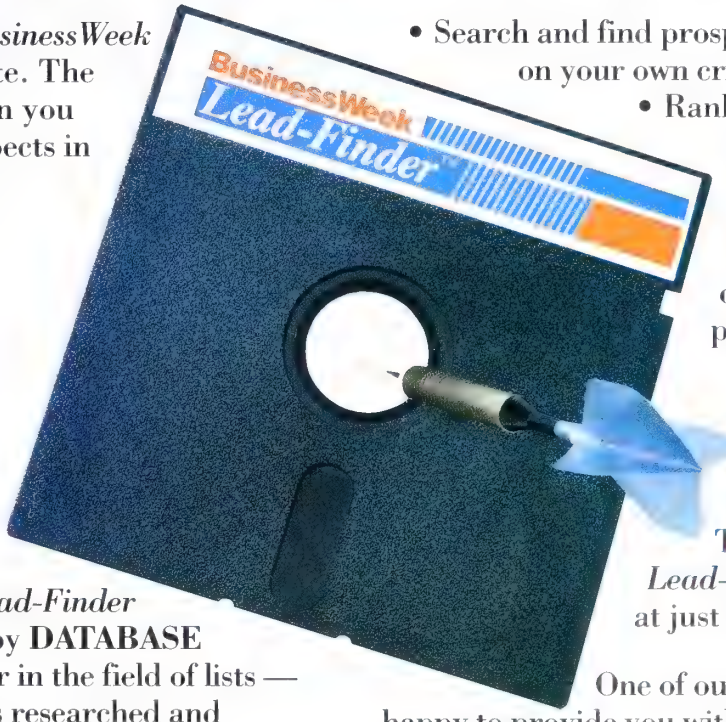

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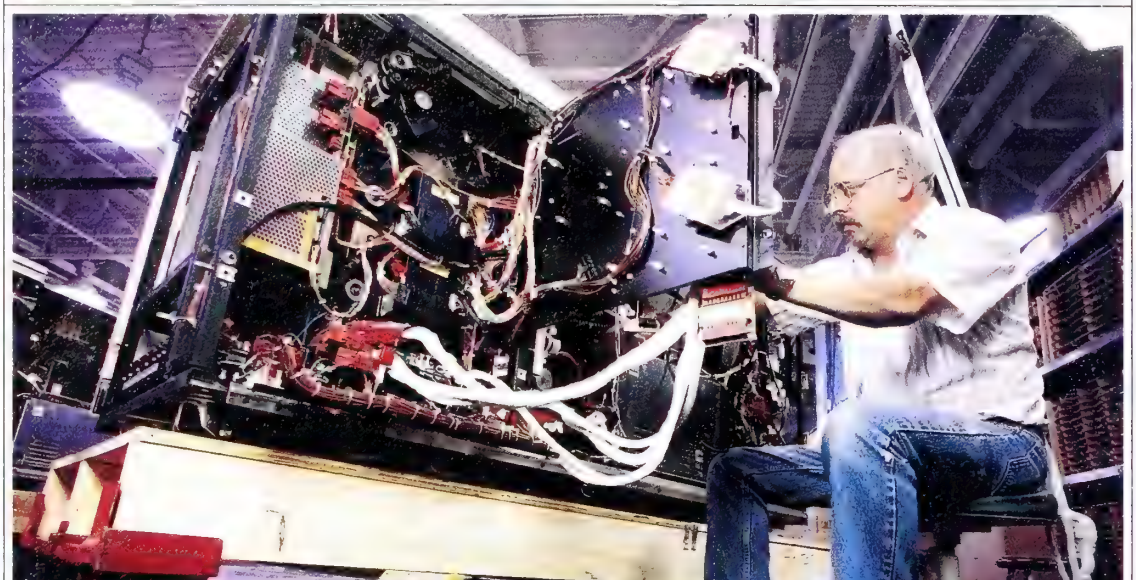


MAKING DO-GUTECHS IN UPSTATE NEW YORK: AN UNEXPECTED SUCCESS

CAN XEROX DUPLICATE ITS GLORY DAYS?

The focus now: New technology, new products, and new markets

Few companies have held out so much promise and delivered so many disappointments as Xerox Corp. Its engineers virtually invented the modern office: the laser printer, the personal computer, even the fax machine. Yet the Stamford (Conn.) copier giant nearly went out of business in the late 1970s when low-cost Japanese competitors caught it napping. And the 1980s were marked by a detour into financial services that never seemed to pay off.

Now, three years into his tenure as chief executive officer and chairman, Paul A. Allaire is hoping that he finally has a strategy in place to rejuvenate Xerox. Confronting a revolution that has altered office technology, Xerox now boasts a new line of modern gear, from color copiers to digital printers. And much of its equipment is getting better reviews these days. "Everything is a markedly improved piece of hardware," says Julianne Mehegan, an information-equipment consultant at BIS Strategic Decisions.

The company is also chasing new markets as never before. One target: the home office. In March, Xerox launched a pilot program to sell office supplies through supermarkets. What's more, Allaire is making strides in revamping Xerox' low-key, insular culture. Abandoning its go-it-alone approach, Xerox is increasingly teaming up with other high-tech companies, such as Microsoft Corp., to develop a new generation of printers and fax machines.

Xerox' chief has also shaken up his management team by bringing in senior executives from the outside. In July, Allaire hired former British Telecommunications PLC Finance Director Barry D. Romeril, known for his direct style and cost-cutting skills, as chief financial officer. That same month, Allaire also hired [illegible] mer NeXT Com[illegible] er Inc. Presid[illegible] Peter van Cuy[illegible] burg to super[illegible] the daily operati[illegible] of much of [illegible] copying and pr[illegible] ing business. "[illegible] are trying [illegible] change the total [illegible] ture of the com[illegible] ny," says Allaire, [illegible] a 27-year Xe[illegible] veteran.

SLOW CLIMB. W[illegible] few analysts [illegible] about to proclai[illegible] a new era of prosp[illegible] ity at Xerox, m[illegible] agree that Allai[illegible]'s strategy is slo[illegible] showing resu[illegible] Analyst B. A[illegible] Henderson of P[illegible] dential Securit[illegible] Inc. estimates t[illegible] Xerox' profits co[illegible] climb 18% next y[illegible] as its revenues [illegible] 8%, to $15.8 billion (chart, page 58). "[illegible] don't expect instant gratification," s[illegible] Henderson. "But the company is gett[illegible] its act together."

Maybe so. But Xerox also faces so[illegible] daunting problems. True, the compa[illegible] has expanded its share of the cop[illegible] market to 17% this year from 15%[illegible] 1990. But it's still lagging behind mar[illegible] leader Canon Inc., with 20%, accord[illegible] to market researcher Dataquest I[illegible] And despite Xerox' home-office strate[illegible] it has yet to come up with a success[illegible] product to challenge Canon's domina[illegible] in low-cost personal copiers. Then ther[illegible] the problem of slow economic grov[illegible] in Japan and Europe, which account [illegible] 51% of Xerox' sales. It's no wonder [illegible] stock has dropped nearly 19% since F[illegible] ruary, to about 70.

What's driving Allaire's push for[illegible] new Xerox is a technological revolut[illegible] that's making its light-lens copiers a[illegible] electromechanical printers a thing of [illegible] past. Indeed, the future is in copi[illegible] that use digital technolo[illegible] to produce faster and sha[illegible] er copies. Until recent[illegible] most analysts felt Allair[illegible]'s efforts to respond had be[illegible] hamstrung by the woes [illegible] the company's financial su[illegible] sidiary. Last year, howev[illegible] Allaire slowly began dism[illegible] tling Xerox' financial empi[illegible] And in January, he [illegible] nounced that Xerox wou[illegible]

A BIG SWITCH: PALO ALTO SCIENTISTS WORK CLOSELY WITH THE HOME OFFICE


WordPerfect
SIX.0
WINDOWS
WordPerfect
SIX.0
WINDOWS
THE NEW WAY
TO EXPRESS YOUR
INDIVIDUALITY.
WORDPERFECT® 6.0 FOR WINDOWS.
THE MOST CUSTOMIZABLE WORD PROCESSOR
EVER WRITTEN. COMING IN OCTOBER.
WordPerfect
SIX.0
WINDOWS
WordPerfect
SIX.0
WINDOWS

finally exit the $3.6 billion financial-services business. Crum & Forster Inc., the Basking Ridge (N. J.) property and casualty insurer, is the only remnant of the 1980s diversification. And it's expected to be sold later this year.

TIME-SAVER. Without the distraction of financial services, Allaire is focusing almost exclusively on Xerox' core business. In his view, new products will go a long way toward reviving Xerox' sales growth. Already, he has had some success with DocuTech, a high-speed digital electronic copier and printer introduced in 1990. Analysts said the $250,000 machine was too expensive and bulky. But DocuTech is proving to be a big success. Merrill Lynch & Co. analyst Dan Mandresh estimates that Xerox could sell 5,000 DocuTechs by the end of this year, up from 3,000 in 1992.

The machine's versatility has been a big attraction for customers. DocuTech scans, copies, prints, and with optional attachments, binds and staples small booklets. That was a big selling point for Blue Cross/Blue Shield of North Carolina. Gil Long, senior director of information systems for the health insurer, says he can put together benefits booklets in two to three days rather than the six to nine weeks it used to take. That also means the company doesn't need to print a big inventory of booklets. Blue Cross/Blue Shield wasted $30,000 last year printing unneeded booklets. Building on that success, Xerox introduced a smaller version of DocuTech late last year that sells for $160,000.

Allaire credits part of the success of DocuTech and the new copiers to a new, closer relationship between the home office and Xerox' research center in Palo Alto, Calif. Xerox' West Coast engineers and scientists have long been attuned to the computer age: They invented both the PC and the mouse. But managers in Connecticut preferred new copiers to Palo Alto's inventions, which other companies, notably Apple Computer Inc., ended up commercializing.

Allaire says he doesn't want to repeat that mistake. Today, engineers in Palo Alto work closely with marketing executives at the home office. That means that research is limited to products that can be rapidly brought to market. "We are doing work as radical as we ever did in the 1970s," says Chief Scientist John Seely Brown. "But it's grounded in real-world problems." Among the new products Brown's team is working on is a high-resolution liquid-crystal display that one day could be used in computer monitors or copier displays. Also in development: paper containing magnetic coding that can automatically direct documents, such as faxes, to specific locations.

Joint ventures are also helping Xerox enhance its product line. Last year, it linked up with Sun Microsystems Inc. to develop a new high-speed printer that uses a Sun workstation. Al in March, Xerox signed agreement with Microsoft develop a new line of pri ers, copiers, and fax machi that will combine Xerox' d ument-handling software w Microsoft's At Work softwa that can perform a numb of functions, including linki copiers and computers. A more joint ventures are lik ly. Insiders say van Cuyle burg, 45, who left NeXT wh the company said it was ex ing the computer-hardwa business, was brought board to forge new allianc with computer companies.

Xerox wants to bolster i supplier relationships wi other high-tech companies. 1992, it signed a deal wi Compaq Computer Inc. provide printing engines the Houston-based compute maker, allowing it to mark a new family of laser printers. And th year Texas Instruments Inc. started u ing a new Xerox ink jet in its Micr Mark laser printer. "The technology a lows faster printing than any of th competition," says Glenn Neland, mana er of TI's printer business.

SUBCONTRACTING. Allaire is also scoutin new markets. He is especially keen o home offices, which Xerox believes coul grow into a $27 billion market by 199 To tap it, the company began using mu tishelf displays in supermarkets ove the summer to sell a range of office su plies from message pads to envelope Other manufacturers are providing th supplies, using Xerox' name under l cense. Allaire believes supermarkets o fer direct access to the home-office ma ket. Xerox has displays in 4 supermarkets owned by Weg mans Food Markets Inc. i western New York State. An other supermarket deal is i the works, but Xerox won' discuss the details.

Despite the improvements Allaire admits that Xerox ha a long way to go before i can reclaim its past glory "We will need to change Xe rox more in the next 5 years than we have in the past 10," he says. If so, it may be a while before the company is humming again. But it'll be worth it if the makeover ends up saving Xerox from copying past disappointments.

By Tim Smart in Stamford, Conn., with bureau reports

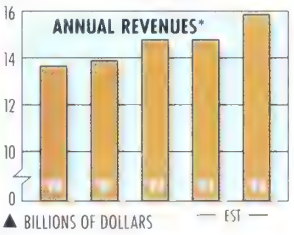
XEROX IS BETTING ITS STRATEGY...

JOINT VENTURES Partnered with Microsoft to market new lines of printers, copiers, fax machines. Xerox is developing high-speed printers that use Sun Microsystems computer workstations.

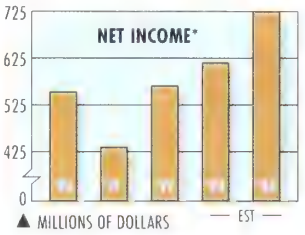
NEW PRODUCTS Following success of DocuTech, Xerox introduced a smaller, less expensive version of advanced copier and printer. Other products in the pipeline include color copiers and laser printers.

CULTURE By bringing in aggressive senior executives from the outside, Xerox hopes to transform its low-key culture.

...CAN REVIVE SALES...

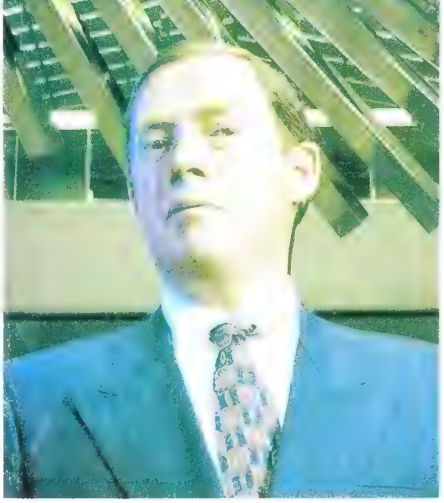


...AND SPUR PROFITS



DATA COMPANY REPORTS PRUDENTIAL SECURITIES INC

*EXCLUDES RESULTS FROM DISCONTINUED FINANCIAL UNIT



CEO ALLAIRE: "WE WILL NEED TO CHANGE XEROX MORE IN THE NEXT 5 YEARS THAN WE HAVE IN THE PAST 10"

"Form ever follows function."

–Louis Henri Sullivan (1896)

By maximizing

the ratio of room given

to passengers to room

Function

given to machine

a whole new category of

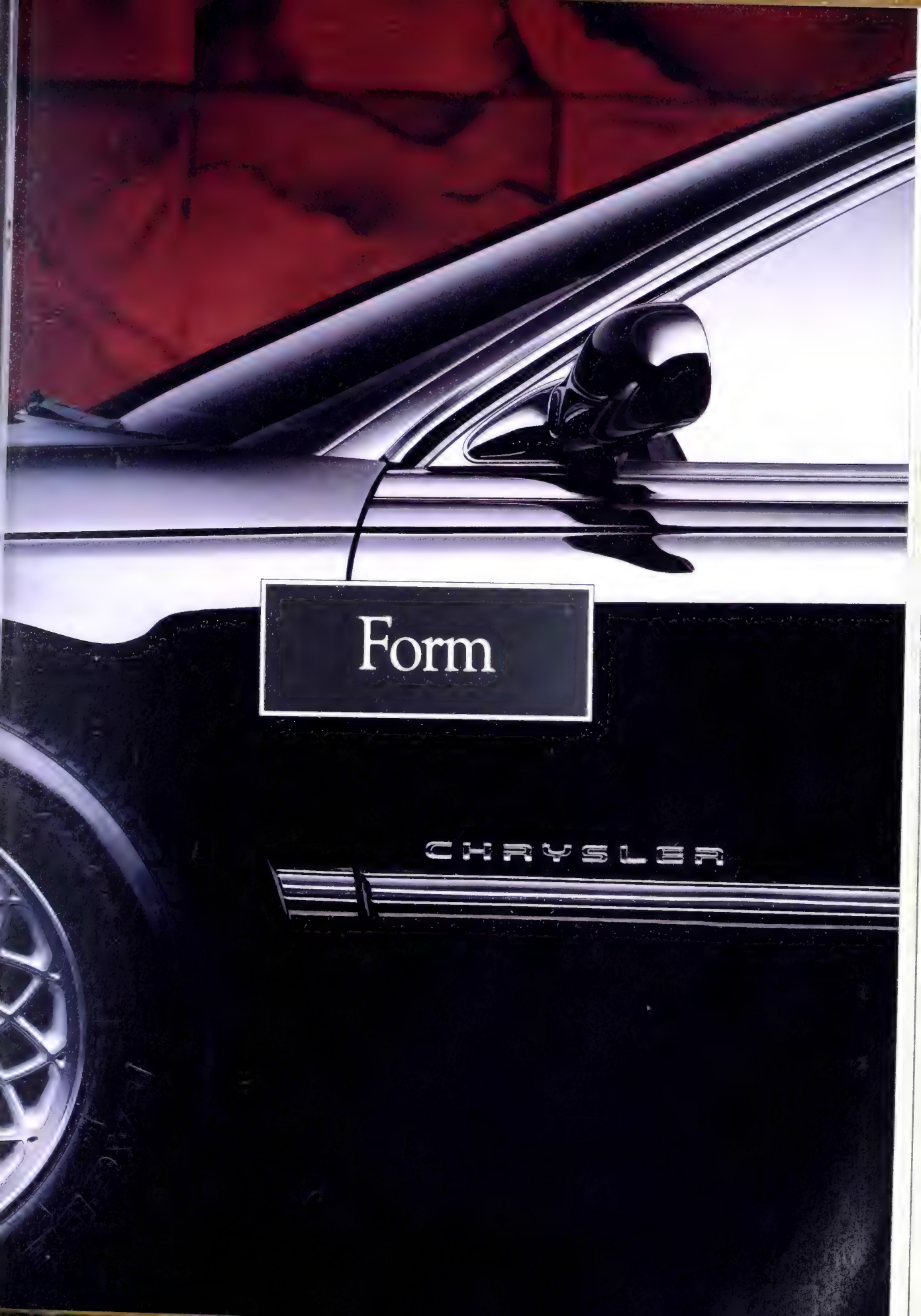
vehicle is created.


Form

Later, this same concept
leads to "cab forward."
The windshield is moved
forward

Function

and radically canted
to provide increased
visibility and decreased
aerodynamic drag.


Form
CHRYSLER

The wheels are moved
toward the corners to
provide a significant increase
in interior volume.

Function

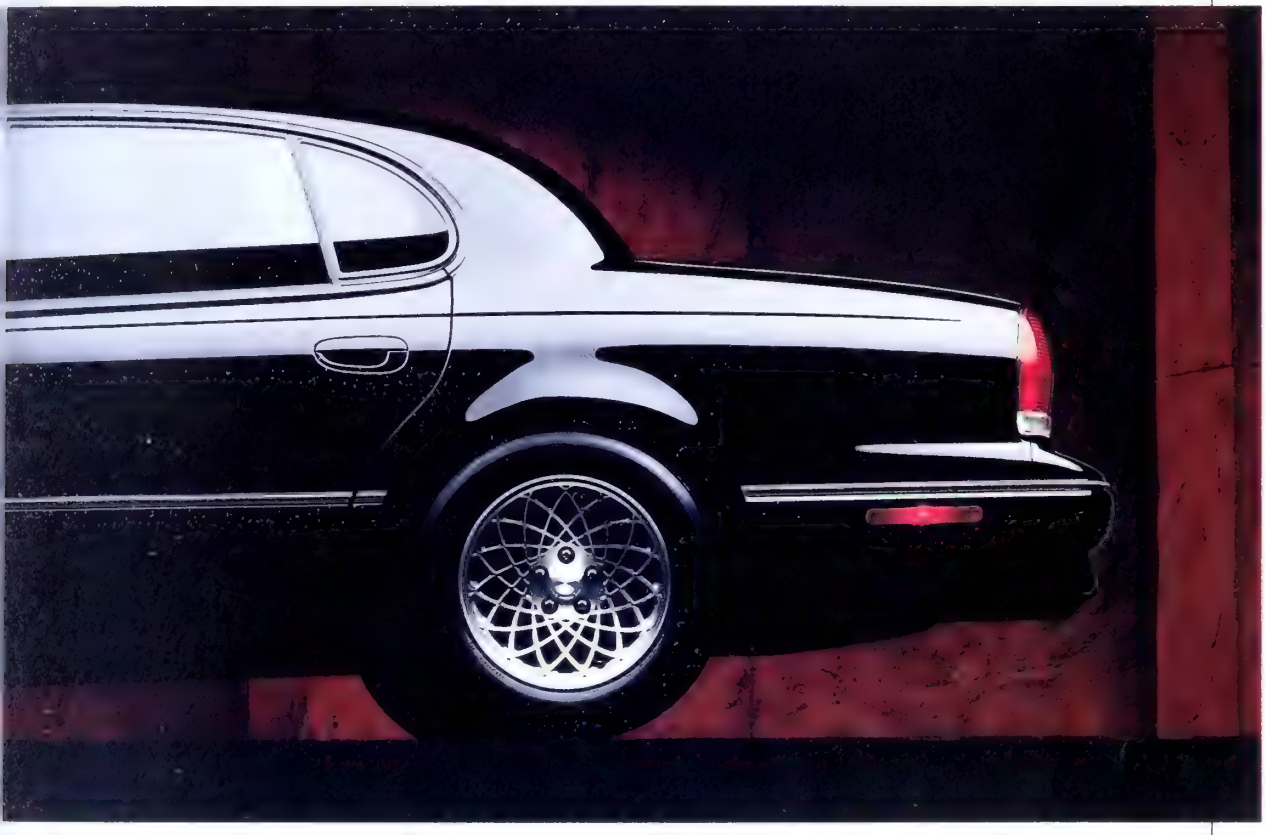
This also provides a wider
track for more stable handling.
Rear doors become wider
for easier entry and exit.


Form

Presenting one of the most eloquent expressions ever of form following function. The Chrysler New Yorker.

Buy a new car that looks like this and everywhere you go heads will swivl Which will probably make you feel very, very good. For about one week. Aft that, you hope and pray a car's beauty is more than sheet metal deep. Fortunate this car's fluid lines are not the result of some styling gimmick; they're the resu

a totally new automotive architecture called "cab forward." The New Yorker
.ts six, and is roomier than the Cadillac Seville, Acura Legend and the Infiniti
45.† It has a longer wheelbase than a Lincoln Continental, so you get a smooth,
nfortable ride. It has a wider track than the Lexus LS 400, so the car plants



elf around curves. It has four-wheel independent suspension, four-wheel disc
3S, and driver and front passenger air bags.* All standard. In fact, the whole
emise behind its design was functional: to combine the comfort of a luxury car
th the handling of a sports sedan. Can we help it if it also turned out beautiful?

Presenting the Chrysler LHS.
Its function? To perform.

If what you're looking for is a sedate way to get from one appointment to the ne

there are many luxury cars you can choose from. However, if what you want is a c

that can make that trip exhilarating, take a look at the Chrysler LHS. It's one luxur

car that assumes you enjoy the act of driving. To that end, it has a 24-valv

*A

-horsepower overhead cam engine with more torque than a Nissan 300 ZX, and
ıswers to the helm with an effortless precision that would do BMW proud," says
and Driver. The Chrysler LHS caters to your sense of refinement with anatom-
y designed bucket seats trimmed in glove leather, an 11-speaker Infinity Spatial

ıging Sound System and automatic temperature control. And it appeals to your
ımon sense with four-wheel disc anti-lock brakes and driver and front passenger
bags.* Quite simply, the Chrysler LHS was designed to put you back in touch
h one of the chief joys of owning a car. In case you've forgotten, it's called driving.

The Chrysler Concorde. A function and a form automotive writers are still writing about.

The reviews for the Chrysler Concorde continue to be glowing. One writer h gone so far as to call it "a watershed event in auto industry history." All of whic has been flattering, of course. But even more gratifying is the fact that real peop have been buying this car, and *their* reviews are starting to come in. According

research study, among the 129 new car models sold last year, the Chrysler
ıcorde ranked in the top ten in owner satisfaction.† Along with Mercedes,
ıra and Lexus. There are a number of reasons for this. The Concorde's roomi-
s and comfort, its superb handling, its long list of standard features, including

iver and front passenger air bags.* And its price is set at a level car-buying mortals
ı actually afford. All of which adds up to a strong argument for test-driving the
ırysler Concorde. You'll not only see why last year it was *Automobile Magazine's*
ır of the Year." You'll see why this year, it should be *your* car of the year.

The Chrysler Town & Country. (Form following function led to a whole new form of transportation.)

When we introduced the first minivan back in 1984, it literally transformed th way families traveled. And since inventing it, we've continued to improve it. Som examples: we were the first with a minivan air bag. The first to offer an integrate child safety seat. And now we're the first to give you driver and front passenger a

* Always Wear Your Seat Belt. † Excludes sunscreen glass.

ags* and dynamic side impact protection. Which means, for 1994, our minivans re the only ones to meet all 1998 passenger car safety standards.† All this functionality is raised to luxurious new levels in the Chrysler Town & Country. It offers uad seating for seven, an Infinity Sound System, four-wheel anti-lock brakes and a

.8-liter high torque V-6. Luxury appointments like a CD player, leather-trimmed eats are also available. The Chrysler Town & Country shows what can happen when company believes in continuous improvement. We just can't seem to leave a good lea alone. Aren't you glad?

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there's only

one function left

to perform.

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)LD SNAP
' ALASKA AIRLINES

eavy losses mean cutting staff and trimming some frills

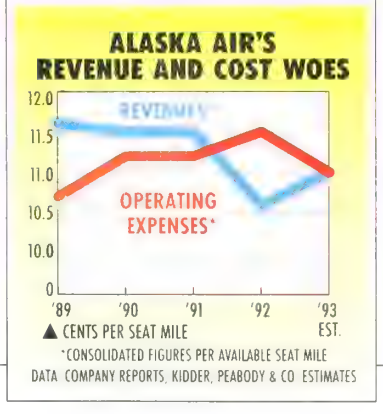
n Sept. 19, *Condé Nast Traveler* magazine announced that its readers had yet again selected ka Airlines as the best U.S. carri- 'or the fifth consecutive year. But ka Air Group CEO Raymond J. Vec- ıd little time to celebrate. The air- s parent company is grappling with .sty fare war and a bitter dispute . its flight attendants' union. On . 11, flight attendants walked out ive flights in California and Wash- on. And the union says it will late action against Alaska Air until company negotiates a new pay ement in good faith.

t a time when many airlines are fi- / climbing out of the red, the Seat- ɔased company seems headed for e bad times. After a staggering $85 on loss last year, the airline could k up an additional $17 million in red this year, as revenues remain flat, at billion, estimates analyst Sam But- ɛ of Kidder, Peabody & Co.

'LE LEGROOM. Alaska Airlines, whose es are known for the smiling Eskimo heir tails, hasn't always been in such 'y shape. Rapid expansion in the)s gave it an elaborate West Coast e network, with 44 destinations from ska to Mexico. It also serves four s in Russia's far east, including Vlad- tok. It thrived by attracting business travelers willing to pay a premium fare for top-notch treatment. Fliers grew to love its extra legroom, gourmet meals, free wine, and attentive service.

It was an expensive strategy, though. Last year, Alaska Airlines' operating costs averaged 11.5¢ per seat for every mile flown, compared with 7¢ for its no-frills competitors. As long as many passengers were willing to pay full fare, the plan worked fine. Indeed, just two years ago, Alaska Airlines and Southwest Airlines Co. were widely viewed as the nation's healthiest carriers.

Then came the recession and subsequent fare wars. Forced to compete with cheaper rivals, Alaska Airlines began cutting prices, and revenues plummeted as operating costs continued to rise (chart). Vecci blames one-third of his company's losses on one competitor: MarkAir Inc., a scrappy airline based in Anchorage. Once a feeder for Alaska Airlines, MarkAir declared war in November, 1991, by invading Alaska's lucrative Seattle-Anchorage route with a two-for-one discount fare—50% below the standard $400 fare that Alaska was charging. Six months later, MarkAir went into bankruptcy. But as it reorganizes under Chapter 11 protection, MarkAir continues to expand southward, challenging Alaska at every turn.



Despite Alaska's high costs, Vecci has little choice but to go head-to-head with the competition. Last year's summer fare wars forced Alaska Airlines to slash fares on almost all of its routes by 50%. This year, Vecci also began no-frills "lite flights" to Reno and Las Vegas, in response to no-frills startups Morris Air and Reno Air. The airline is also trimming its vaunted food service: Vecci cut out hot meals on some flights and eliminated the third slice of French toast from breakfasts. Still, Vecci says that he won't risk the company's reputation for superior service. "For a company the size of Alaska [Airlines], we believe it's essential to maintain some distinction," he says.

ON HALF-PAY. And that means the Bronx (N.Y.)-born Vecci, 50, who joined Alaska in 1975 as vice-president for planning and regulatory affairs, must make cuts elsewhere. The biggest savings so far—$500 million—came from canceling or delaying aircraft orders and nixing plans to build two maintenance centers. Vecci has also furloughed about 400 of Alaska's 7,000 employees, including 64 managers and headquarters staff. But in January, Vecci agreed not to lay off any pilots if they would work overtime for half-pay.

Flight attendants are not so cooperative. After contract talks broke down in June, the company imposed its own terms. The company and union returned to the bargaining table in late July. But tensions remain high. And more walkoffs are expected. Employees are especially angry at Vecci for accepting a 15% salary increase, to $300,000, at a time when he is urging companywide cost reductions. Alaska has agreed to a pay increase of only 3% for flight attendants, whose pay averages $24,000.

Vecci has managed to reduce costs a bit, to an estimated 11¢ per seat per mile this year. But deeper cuts are needed. Still, most analysts expect Alaska Air to stay aloft. After all, it has an extensive West Coast route network and a core of loyal customers. But the high-flying days are over. For years to come, the only smiling face at the airline may be the Eskimo on the tail.

By Dori Jones Yang in Seattle, with Eric Schine in Los Angeles

Commentary/by Karen Pennar

THE BUSINESS CYCLE ISN'T DEAD, JUST RESTING

In the 1960s, years of healthy economic growth prompted economists to wonder whether the business cycle had been tamed. Then, no sooner had the U. S. government's publication *Business Cycle Developments* been renamed *Business Conditions Digest* than recession struck in 1970, and hopes that a new era in policy-making and prosperity had dawned were promptly dashed. In the 1980s, after a similarly long stretch of healthy economic growth, economists dared hope yet again that the business cycle might be moribund—but those hopes were put to rest by the recession of 1990-91.

It's apparent that the U. S. economy cannot be cured of recurrent contractions. Economic performance will continue to be marked by ups and downs, however varied in magnitude and timing those swings may be. But today, as the recovery lumbers slowly through its 30th month, it's appropriate to ask not whether the business cycle is dead, but a related and no less important question: What relevance does business-cycle analysis, based on past experience, have in today's economy?

Not very much, it turns out. It's true, as longtime students of business cycles argue, that not all recessions and expansions precisely mimic previous ones. But over the years, economists and forecasters have come to believe that all business cycles move through fairly predictable phases and that basic relationships exist between economic events and their impact in various sectors. This latest expansion, though, has "broken the mold," as economist Stephen S. Roach of Morgan Stanley & Co. puts it. And that means forecasters who cling to expectations that are based on previous expansions about how strong growth should be, how low unemployment should go, and what's going to happen to inflation next are bound to be sadly disappointed. Policymakers and business executives who fail to examine closely the consequences of structural change in the economy—rather than the consequences of cyclical change—may choose the wrong strategies.

TECTONIC SHIFTS. The current expansion is exhibiting numerous unusual features—the consequence, in large part, of seismic structural shifts that are remaking the economy. The tectonics began reverberating through the economy before the recession, and they have continued to do so. Since the recovery began in the spring of 1991, these changes—from globalization to technological change—have overwhelmed the impact of cyclical factors that generally catapult growth forward. And over the next couple of years, these secular forces and new ones will continue to keep muting growth. "We've been in a period of stagnation since the spring of 1989," notes Chris Varvares, economist at Laurence H. Meyer & Associates Ltd. in St. Louis. "The recession was a relatively insignificant event in a much longer period of stagnant growth."

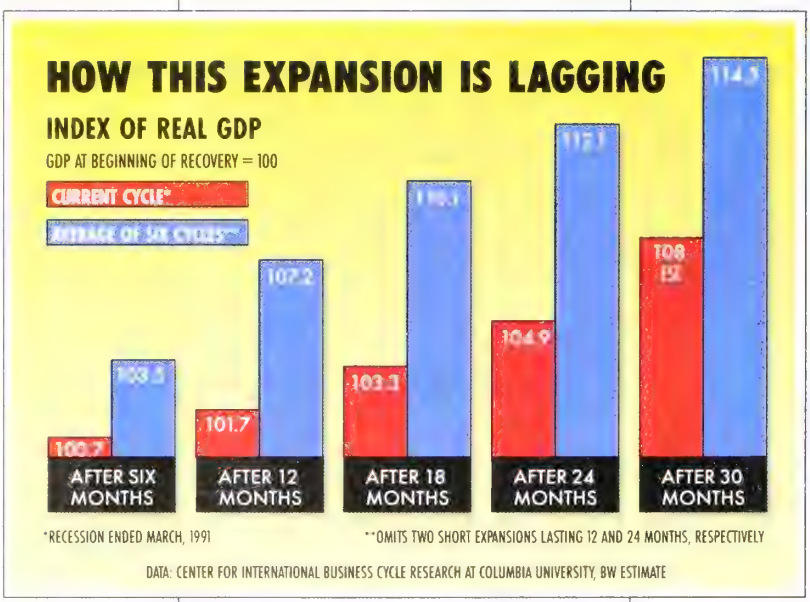
That may well explain why the current recovery hasn't occurred at the pace or with the strength that previous recoveries demonstrated. The gain in output registered since the upturn began in the spring of 1991 is the smallest for any expansion of greater tha two years' duration since World W II. "It sometimes seems as though th economy has moved to middle ag without going through adolescence that period of economic recovery whe we get rapid employment gains ar dynamic growth," observes Gail Fo ler, chief economist for the Conferen Board.

The growth comparisons are but th most telling of many that highlight th current expansion's uniqueness. Rehi ing, for instance, has been especiall slow. Just about e ery week brings new of yet another majo corporation sheddin workers. U S We Inc. is the latest t join the crowd, an nouncing recently tha it would cut 9,000 em ployees over the nex three years.

Nationwide, corpo rate downsizing bega well before the rece sion, the result of co pressures brought o by stiff internation competition and heav debt loads. Wide spread cutbacks in de fense also led to lay offs. Lower interes rates have eased th debt burden, but international compe tition remains brutal, and defense co tractors are still retrenching. "W didn't have a typical recession, an we're not having a typical recovery says Donald Ratajzcak, director of ec nomic forecasting at Georgia State Un versity. "Manufacturers aren't turnin the furnaces back on and rehiring."

PART-TIMERS. In fact, it took 25 month of economic recovery to recoup th relatively limited job loss that occurre in the past recession—2½ times longe than the 10 months such healing no mally takes in the aftermath of downturn, observes Morgan Stanley Roach. And even though employmer is growing, part-time work account for an unusually large 26% of ne employment.

Also different this time around i the behavior of interest rates and ir



LOOK TO THE EUROPEAN BANK THAT'S LOOKING LONG-TERM IN AMERICA.

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flation. Usually, this far into an expansion, the Federal Reserve has already had to step in and hit the brakes at least gently, pushing rates higher to curb nascent inflationary pressures. But, again thanks to the spur of global competition, inflation has been trending down, not up. Wage pressures are nonexistent, and companies can't raise prices and make them stick. Ratajczak believes that consumer prices, which rose 3% last year, could end 1993 up about 2.7% and rise by a slightly smaller 2.5% in 1994. Little wonder, then, that long-term interest rates seem finally to have shaken the inflation worries and shed their "inflation premium."

FULL-STEAM FACTOR. This expansion has been unusual not only because it has underperformed past expansions but also because it has outperformed them in one important way. The flip side of meager job growth, as it happens, has been respectable productivity growth. In the current cycle, productivity growth accounts for about 75% of the gain in gross domestic product, says Roach. That's greater than the 58% share that the early-expansion phase of a recovery has typically brought in the past. Such productivity-led growth allows businesses to log profits in a highly competitive environment, but it isn't likely to translate into higher incomes or stronger demand—the key ingredients necessary to spur growth on—anytime soon.

The health-care industry will be less of a factor in growth. Drugmakers are already facing retrenchment

The global pressures that forced companies to improve productivity haven't yet played themselves out. International competition remains fierce, and European industry is now facing the same structural pressures that American industry began to confront in the second half of the 1980s. With more and more competitors swearing allegiance to cost-cutting strategie U. S. companies will have to rema vigilant.

Health-care reform also promises produce long-term changes in the eco omy. The industry, which has co tributed mightily to employment ar output growth in the U. S., will be le of a factor in growth. Already, dru companies and medical-equipment ma ufacturers are facing retrenchment.

But slow growth won't last fore er—just as the much-trumpeted "so landing" strategy of the late 198(didn't avert recession and ease th economy onto a slow growth path intended. Eventually, output will r bound, the forces that push inflatio and interest rates higher will asse themselves, and, however delayed, downturn will occur. In the meantim though, it's the structural forces th are pushing and pulling their wa through the economy—and responsib for what makes this expansion diffe ent from all the others.

Senior Writer Pennar covers ec nomics for BUSINESS WEEK.

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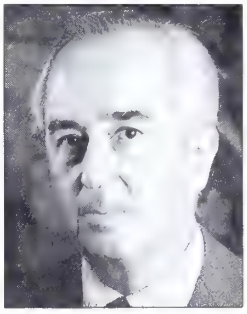

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ENTREPRENEURS

IS MERCK READY FOR MARTY WYGOD?

Its takeover of Medco may mean he has a shot at the top job

Long before Bill and Hillary—before George Bush, even—Martin J. Wygod had drawn a bead on medical-cost containment. As far back as 1987, he was already driving parts of the buttoned-down drug industry to distraction. At the time, Wygod was known vaguely to the business community as a wheeler-dealer, a Mike Milken crony. But for the people who sold prescription drugs, his scrappy game of hardball was starting to make life miserable.

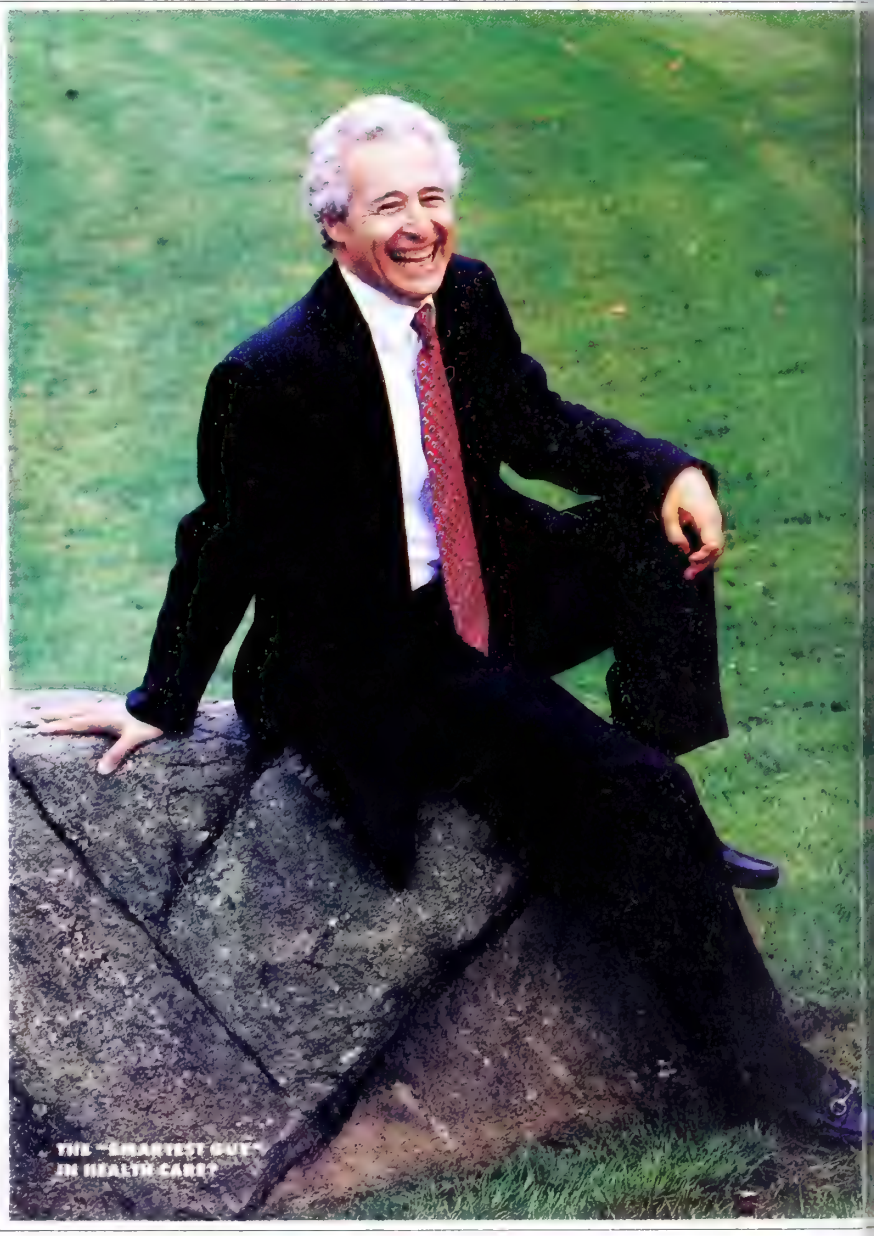
Almost from scratch, Wygod had built Medco Containment Services Inc. into a wildly successful mail-order distributor of discount prescription drugs. He had won so much business from the nation's retail pharmacies that by the summer of 1987 they urged a Senate subcommittee to hold hearings on the safety of his mass-mailing methods. The pharmacists contended Medco had made dangerous errors in filling prescriptions. They even trotted out a former Medco employee who insisted her life had been threatened by zealous managers when she questioned their practices. Outraged, Wygod took the podium and debunked the safety claims as sour grapes. The death threat, it turned out, was utter nonsense. Wygod was convincing; nothing came of the hearings. But the episode underlined his growing image as an industry renegade.

SWORN ENEMY. These days, Marty Wygod is trying to live that image down. He's happy to have his picture taken, but not at either of his two thoroughbred horse-breeding farms. Senate hearings and race horses clash with what the 53-year-old executive appears to want next. Having toppled the status quo in the drug industry, Wygod would like to trade his maverick reputation for a leadership position in the industry's emerging new order.

He took a giant step in that direction on July 28 when drug giant Merck & Co. announced its intention to buy Medco for a staggering $6 billion. The proposed matchup was to the drug industry what the handshake between Yassir Arafat and Yitzhak Rabin was to world politics. If approved by federal regulators—no sure thing—the deal would pair two former enemies. It could also put Wygod in contention to succeed Merck's bookish chairman, P. Roy Vagelos, when Vagelos retires in November, 1994.

The notion of Wygod having a role in running Merck would have raised hoots of laughter as little as two years ago. Then, Merck was riding high as one of the nation's most respected companies. As Medco used its huge buying power to wrest big discounts from other drug makers, Merck wouldn't budge, showing open disdain for Wygod's tactics. But the Clinton Administration's health-care crusade—coupled with a drought in Merck's new drug pipeline—weakened Vagelos' hand. Suddenly, the idea of courting his enemy began to make sense. "Marty Wygod has distinguished himself as a leader with uncanny vision," says Vagelos.

Wygod remains coy about his intentions. But it's clear the deal would give him enormous leverage in demand-



SHONNA VAENA

cipal role at Merck. His share in al was valued at about $150 mil- all of which he'll take in Merck and options. That makes him 's largest individual shareholder ill give him a board seat. What's Medco's other directors would e from the deal with more Merck than the Merck board. Says -care consultant Patricia Wilson: question is, who bought whom?" god is currently negotiating his role, but doesn't deny he wants a position. "There have been no ssions of title yet," he says. "I'm to play whatever role is most ctive." Albert M. Weis, a Medco or and a longtime friend, is a little direct: "Titles have never meant ing to Marty," Weis says. "What want is a lot of responsibility." rck officials decline to comment e situation. But the board is not likely to take the succession issue lightly. Directors include such independent-minded executives as turnaround specialist Lawrence A. Bossidy, chairman of AlliedSignal Inc., and H. Brewster Atwater, CEO of General Mills Inc. Several respected figures from the research community round out the bill. Speculation within the company is that they'll let Vagelos stay on past his retirement date while Wygod gets some subsidiary role. "Roy will want to get the company back on track," says one former top research executive who has kept close ties to Merck.

WYGOD'S HARDBALL WAYS COULD SPELL CHANGES FOR HIGHBROW MERCK

But Wygod's presence in the wings highlights an identity crisis at Merck that makes anything possible. The board is facing a crucial issue: How should Merck best position itself in a world redefined by the advent of "managed competition?" Wygod is clearly a brilliant strategic thinker and a world-class marketer. "He is the smartest guy in the health-care business today," says Lawrence N. Feinberg, of Oracle Health Investors LP. The board obviously finds those qualities alluring or it wouldn't have agreed to pay 44 times earnings for Medco. The proposed combination is rife with unanswered questions about how the two companies would mesh.

SOAP OPERA? But for all his smarts, Wygod also presents problems. His background as a relentless marketer would definitely clash with the critical side of Merck where expediency comes second to science. The company's research organization—the one that produced Vagelos—has rendered Merck something of a national treasure. "How can the premier high-tech research organization at the same time be the cut-rate marketing king?" asks the former R&D executive. Says another: "It's developing into a soap opera."

A look at Wygod's career highlights the dilemma. While his success is indisputable—he was a multimillionaire before he was 30—he has spent more time buying and selling assets than he has running Medco (table). Close associations with controversial financiers such as raider Victor Posner and Milken enhance that image. And it doesn't help that Wygod's board is stacked with pals who have made millions from generous stock options. Medco, in fact, is currently the target of five shareholder suits alleging the Merck deal was designed to enrich top executives at other shareholders' expense. Medco dismisses the suits as nonsense.

Wygod's roots are firmly planted on Wall Street. He grew up in middle-class Long Island, the son of an independent accountant who had escaped the Nazi threat in Poland before World War II. After graduating with a business degree from New York University in 1961, he headed straight for the brokerage business. He learned the ropes at a firm called Weis & Co. but left in 1966 with the boss's son and a friend to start Wygod, Weis & Florin.

His niche from the beginning was astute research on emerging industries and a precocious talent for takeovers. In the early 1960s, Wygod made millions for clients by recommending an obscure software company called Computer Sciences Corp. In 1968, he helped Posner make his raid on Sharon Steel Corp. The same year, he engineered what was then a record hostile takeover: National General Corp.'s acquisition of insurer Great American Holdings Co. National was so impressed with Wygod that it bought his firm. At 29, he reaped $20 million.

During the next decade, Wygod participated in a number of acquisitions, but spent much of his time focusing on his other real love: thoroughbred horses. He had dabbled in racing ever since Fletcher Jones, the chairman of Computer Sciences, had given him his first two horses in the mid-1960s. He formed River Edge Farm Inc. in 1977, and today the 163-acre spread near Santa Barbara is California's top breeder. Wygod has a second horse farm in New Jersey.

During that time, Wygod also began to see the money-making potential in health care. He and some partners bought a series of companies to form Glasrock Medical Services, which provided home respiratory care. With the help of Crocker Nevin, a Drexel managing director, Wygod sold most of Glasrock to British Oxygen Corp. in 1982 for about $120 million.

RETURNED FAVOR. A year later, he paid Posner $36 million for a mail-order prescription company, National Pharmacies Co. Merging it with a medical-device firm he owned, Wygod created Medco. Much of the early financing came from Fred Carr's First Executive Corp. and from Drexel. Like many Drexel clients, Wygod returned the favor by buying about $250 million of junk bonds. He lost $42 million on the investment but has no regrets. "They lived up to all their obligations," he says.

Personal relationships mean a lot to

ULTIMILLIONAIRE AT 29

1961

siness degree from New York ty.

1961-65

broker/analyst at Weis & Co., eet.

1966

rokerage, Wygod, Weis & Florin, or astute research on emerging in- and takeovers. Helps Victor Pos- Sharon Steel Corp.

1968-69

ational General's hostile take-over American Holdings Corp. At 29, brokerage to National General r $20 million.

1970-77

es Merchant Investors Inc., a nt banker.

1977

lasrock Medical Services, a home- dical device company.

1982

ost of Glasrock to BOC Group PLC) million.

1983

ational Pharmacies Inc., a small der drug business, from Posner for lion and builds it into Medco.

1993

to sell Medco to Merck for $6 bil- ay pocket more than $150 million.

DATA: BUSINESS WEEK

Wygod. As Medco grew, he filled the board with friends and associates, raising the question: Can a board with such close ties to the CEO be trusted to make independent judgments? Weis and Crocker Nevin are there, as is attorney Thomas R. Ferguson, who represents such Wygod private interests as River Edge Farm. Says Medco marketing chief Wayne T. Gattinella: "Marty is extremely loyal to people who have helped him along the way."

That circle includes Martin J. Raynes, with whom Wygod lost $4 million by investing in New York City real estate. When Raynes' company filed for Chapter 11 in 1991, Medco's board debated whether to ask for his resignation. Wygod, who was best man at Raynes' marriage to the daughter of oil and entertainment tycoon Marvin Davis, opposed ousting him. But he left the decision to the board. Not surprisingly, Raynes stayed.

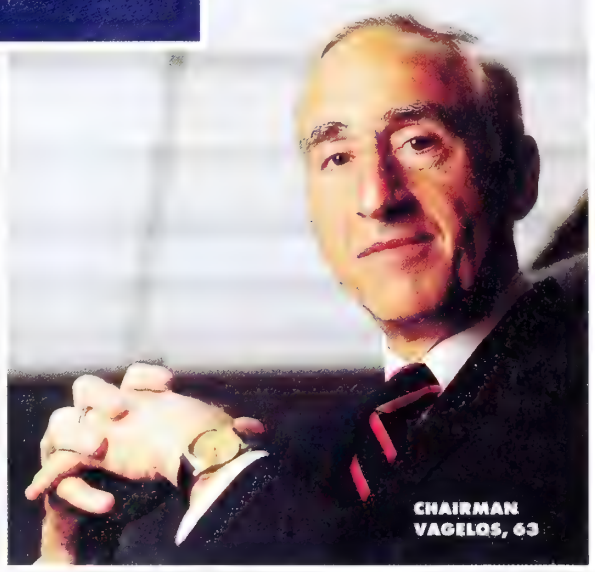
NO PROBLEM. Another Wygod pal, Lawrence R. Lahr, 37, is president of Wygod's River Edge Development Co. in Ventura County, Calif. Lahr was named to the Medco board in 1988, about the time River Edge started to go sour. The company and other investors owned 181 acres in Ventura County and was the prime developer of Oxnard Town Center, a failed $500 million mall, hotel, and office project. When California real estate tanked, River Edge stopped making revenue bond payments, and officials eventually foreclosed on the land, says James V. Fabian, an Oxnard financial analyst.

Neither Lahr nor Raynes, however, has had much problem making money on Medco's board. Compensation for Medco's directors is paid in stock options, not cash. Some of the options have a split-adjusted strike price as low as 48¢ per share (Medco's stock is currently trading at around 36). Lahr's current 20,000-share holding would be worth $780,000 if the merger is completed. Raynes's 43,000-share stake would be worth $1.7 million.

The board has been even more generous with Wygod. His contract—a sore point among some shareholders—resembles that of an investment banker. It's filled with perks, generous options, and arrangements to take a percentage of the value of acquisitions. He has been on BUSINESS WEEK's list of the highest-paid executives the past few years, earning $65 million in cash and stock options in 1990-92. But that pales next to his one-time haul from the Merck deal, which includes a $60 million fee, or 1% of the transaction's total value.

Wygod argues that he took only $75,000 in cash compensation during Medco's first seven years and sold no stock as it was growing. "This is my reward for building the company," he says. "Investors have made a lot of money just as executives have." Nevin and other directors admit the close relationships raise questions about appearances. "Could we fire Marty?" jokes Nevin. "I don't know, it never came up." But they insist their stockholdings tie their interests more closely to other shareholders than to Wygod.

IT'S STILL UNCLEAR HOW MERCK AND MEDCO WOULD MESH



CHAIRMAN VAGELOS, 63

Besides, it's hard to argue with Medco's success. When Wygod bought National Pharmacies from Posner, it served just four health-care plans. Now, its 1,450 customers, including General Motors, Aluminum Co. of America, and Georgia-Pacific, insure 33 million patients—26% of all Americans covered by drug benefit plans. Revenues, growing at 37% annually, hit $2.6 billion in the fiscal year ended June 30.

SELLING BLITZ. Wygod's strategy has been simple: cut costs for workers or retirees with chronic medical conditions who require large orders of medicine. Mailing prescriptions directly to retirees slashed retailing overhead. As Medco gained buying clout, it demanded ever larger discounts from drugmakers.

To develop a critical mass, Medco went on a selling blitz. Wygod or[ed] virtually everyone in the compan[y], just marketers, to hit the road an[d] up health-plan sponsors. Wygod [p]ersonally landed accounts with the C[a]lifornia Public Employees Retirement [S]ystem and several Blue Cross & [B]lue Shield plans. He also signed up Oc[c]idental Petroleum Corp. after meeting [w]ith its late chairman, Armand Hamm[er].

Medco's aggressiveness has [m]ade competitors from the beginning. I[t] bought out rivals and lured away [k]ey talent. In 1985, Wygod bought PAID [P]rescriptions, a claims-processing co[m]pany through which Medco built a [v]aluable data base of physician prescri[p]tion records. That led to Wygod's most [c]ontroversial tactic of all: a mail-order [s]ervice called Prescriber's Choice.

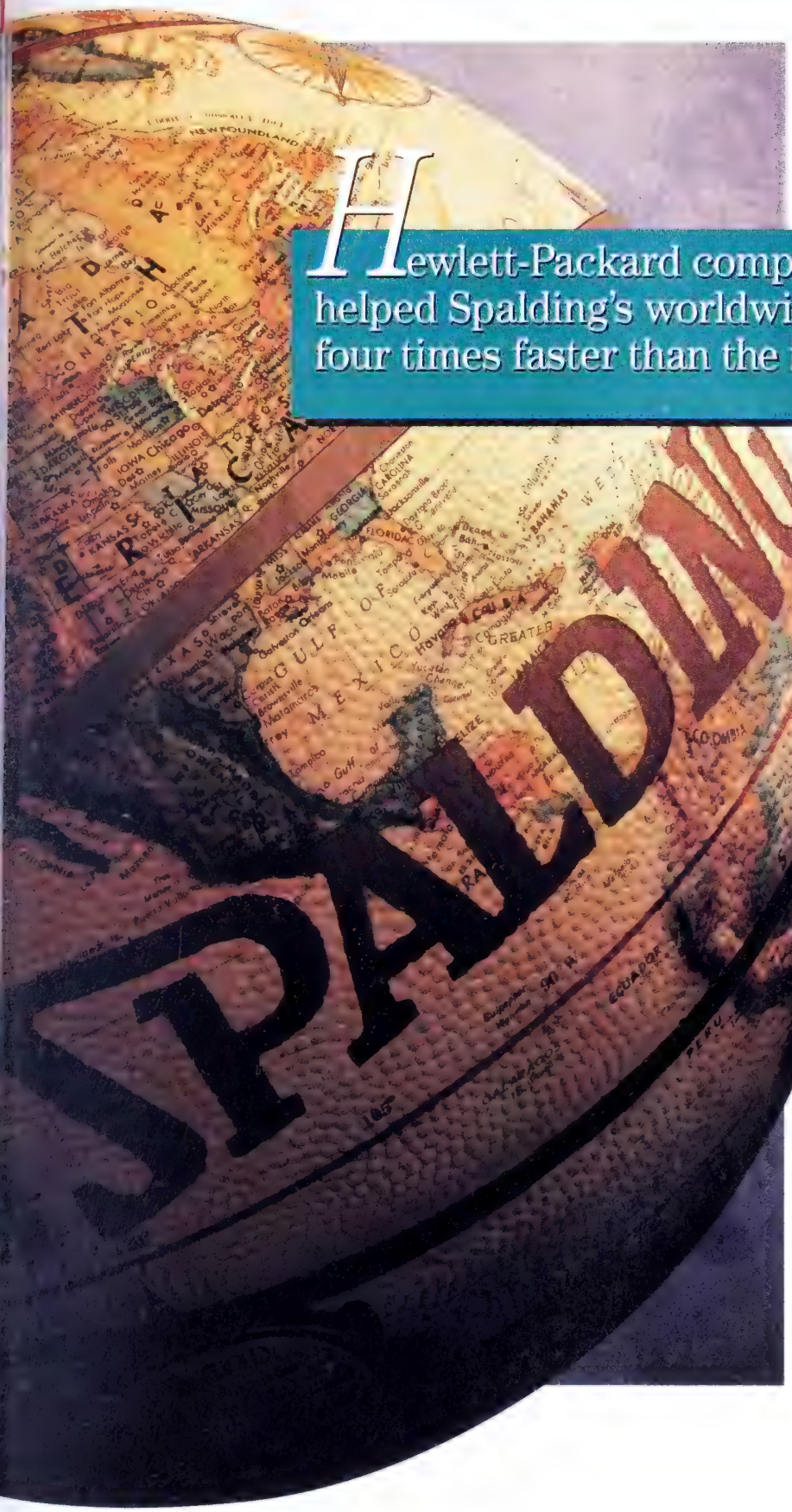
Prescriber's Choice focuse[s] on nine therapeutic drug categ[o]ries, including hypertension an[d] cancers. The strategy is to w[o] discounts from a manufact[u]rer in exchange for pushing its [d]rugs in a particular category. Fo[r] instance, when Medco receiv[es a] prescription for a more ex[p]ensive brand, a Medco pharm[a]cist calls the doctor to offer a [c]omparable drug at less cost. T[h]at's how Medco was able to shift [m]uch of the market for cholesterol-lowering drugs from Merck's M[e]vacor to a cheaper alternative f[r]om Bristol-Myers Squibb.

Since 1991, though, there h[ave] been signals that the gi[ant]'s growth couldn't be sustai[ned]. Seven Medco executives and [di]rectors sold over $50 mil[lion] worth of the stock beginning [in] November, according to SEC [fil]ings. Wygod, who sold $38 millio[n] of his holdings, explains that the sel[l] was for tax reasons.

Maybe so. But by the summer [of] 1992, Medco was looking to merge [or] sell. According to director Weis, Me[dco] had merger discussions with Uni[ted] Healthcare, the big health-maintena[nce] organization. That fell through, bu[t] December, Medco began looking fo[r a] drug company to link with. In a m[ove] that many interpreted as an atte[mpt] to burnish the company's image for s[ale], Wygod also hired his friend, Richa[rd] S. Braddock, soon after Braddock r[e]signed as the highly respected pr[esi]dent of Citicorp. Braddock, who now [is] leaving Medco and is under conside[ra]tion for the top job at Eastman Kod[ak] Co., will earn more than $35 million [for] seven months' work.

Medco wanted a stock deal, and c[on]sidered both Merck and Bristol-Mye[rs]. In late May, Wygod started talking

JOHN S. ABBOTT



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HEWLETT PACKARD

Merck about a strategic alliance, spif ically a plan to offer a joint cost-con ment program for General Motors C Wygod says the first mention of a s sible merger came from Vagelos ing a June 28 dinner at Rudolfo's, n Merck's Whitehouse Station (N headquarters. Vagelos won't comm

A former research scientist, Vag had made it clear that marketing key to the '90s. Eyebrows were ra in December, 1992, when he offici designated Richard J. Markham hard-charging salesman with no search experience—as his heir ap ent. When Markham resigned inex cably in July, many industry watch speculated that it was because he w ed a Medco deal and Vagelos did But it may have been the other w around. "We developed a real rapp and mutual respect," Wygod says of gelos. Markham, who has taken a p as president of Marion Merrell D Inc., says he left for personal reaso

LOCKED IN. Credit Wygod's salesm ship with making Vagelos see the pot tial of a Merck-Medco alliance. A all, the problems involved in mesh the two companies are enormous. M co argues that getting rid of redund marketing operations can save $1 bill a year. Analysts also point out t Wygod has been hoarding $750 mill in cash which he invests in securitie a big bonus for any acquirer. But w of Prescriber's Choice? Merck isn't actly going to demand discounts of self. Several drugstore chains ha threatened to substitute rival drugs Merck's if the deal goes through.

Merck has locked Wygod in for th years to help smooth things out. W will happen after that remains to seen. Some industry watchers spe late that if Vagelos does leave, the co pany might then name a Merck vete president and CEO, while Wygod wo be named chairman. The rationale: T setup would play to Wygod's strengt strategic planning, finance, and de making, while isolating him from R&

Weis, who has known Wygod for years, only worries that his pal mig have trouble with Merck's bureaucra "Marty was a decision-maker at Med he says. "He would tell executives wh he wanted and expected them to find way to do it. The board went along w most of his decisions. We felt he w right." Merck's board is likely to ask few more questions, but one thing is ready clear: Marty Wygod will have big role in Merck's future, and no matt how hard he tries to restyle his ima he isn't likely to change his stripes.

By Michael Schroeder in Montva N.J., with Joseph Weber in Philadelph

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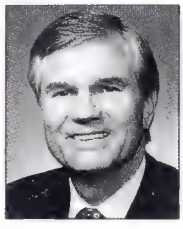

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RETHINKING IBM

Exclusive Account Lou Gerstner's st Six Months

AT THE COMPANY'S MAIN OFFICE IN ARMONK, N.Y.

On this sunny Sept. 9, the platform in the ballroom of the Falls Church (Va.) Marriott hotel is swathed in IBM's signature royal blue. Nearly a thousand talking, laughing IBMers—bused and vanned in from an area stretching from Richmond to Baltimore—fill row upon row of chairs. Just before 3:30 p.m., Louis V. Gerstner Jr. walks in. He shakes some hands and is introduced. Standing on the platform's edge, arms across his chest, he launches into what is, in essence, a stump speech.

IBM's new chairman is on the road again. He starts with a humorous anecdote. Next, he gives his analysis of IBM—its strengths (world-class technology, extraordinary people, customers that want IBM to succeed), and weaknesses (towering costs, a preoccupation with internal processes, and slowness). "I didn't make it work out that there are three strengths and three weaknesses." Pause. "But on an IBM foil, it would have to work out that way." Foils—overhead slides—were used in every Big Blue presentation until he arrived.

Then he delivers the real punch line: "That is not a bad hand to play," he says. "The strengths are very, very hard to duplicate. And the weaknesses, we ought to be able to fix. Because it's us."

With those words, Gerstner—who left RJR Nabisco Holdings Corp. to take over from John F. Akers on Apr. 1—just about sums up his high-stakes campaign to rescue the ailing $62 billion computer company from itself. Few question the raw potential of the tarnished titan of Armonk, N.Y. But having watched IBM choke on its own culture, arrogance, and misguided strategies, having witnessed eight years of failed remedial efforts, many wonder whether Gerstner, or anyone, can fix Big Blue.

GERSTNER ON HIS BACKGROUND:
"I decided early on that I was not going to apologize for my lack of knowledge of IBM technology. When they'd say XX42D, I'd say 'What does that do to help customers?' "

Gerstner has no time or tolerance for such doubts. He's busy rethinking IBM, top to bottom. The IBM he heads is a dysfunctional company: It has taken $28 billion in write-offs since 1986 and has lost money for the past three quarters. Its stock is off 75% from a peak of 176 in 1987. To succeed, the 51-year-old Gerstner must mount a cultural revolution at IBM: He must convince 250,000 employees in 140 countries to change the way they think and act. It's the toughest job in Corporate America today.

ON ORGANIZATION:
"We had poor performance and centralization, and someone drew a line and said 'we're going to have good performance and decentralization.' It's a simplification I don't accept."

In a series of exclusive interviews with BUSINESS WEEK—in Armonk, in Virginia, aboard an IBM Gulfstream IV jet, and preceding a two-day strategic-planning conference in Palisades, N.Y., on Sept. 19—Gerstner discussed his days at IBM. He let BUSINESS WEEK accompany him on a typical outing—a tour of IBM's Falls Church offices and laboratory and a town meeting with the Mid-Atlantic sales region's employ-

ON ORGANIZATION:
"In Europe, the first question I got was, 'we understand you're not comfortable with the traditional IBM concept of sovereignty.' And I said, 'gee, I didn't know that – where's my throne?'"

ON THE WAY TO A CONFERENCE OF CUSTOMERS IN BELGIUM

ees. And he shared videotapes of other meetings he had with employees and customers. By his count, he has talked to "thousands" of customers and 20,000 workers—a sign of the urgency he feels.

The pressure on him comes from far beyond Wall Street. Boeing Co. Chairman Frank A. Shrontz has warned Gerstner that the nation's No. 1 exporter can't build airplanes without IBM computers. Ford Motor Co. Chairman Harold A. Poling told him that "we are so dependent on IBM that your success is almost as important as our own." And Nobel prize-winning geneticist Joshua Lederberg recently grabbed the IBM CEO at a meeting in New York, poked him in the chest, and said: "Do you know that you have one of the great technical treasures in the world at IBM? You better not blow it."

His task is all the more difficult because Gerstner—unlike, say, Microsoft Corp.'s William H. Gates III or Intel Corp.'s Andrew S. Grove—is no expert on technology. With a background as a consultant at McKinsey, president of American Express, and CEO of RJR, Gerstner sees the challenge as a management problem. The technology IBM develops is as good as any rival's, he insists. So he's out to cut costs, slash IBM's bureaucracy, get products to market fast, and turn Big Blue into a customer-driven enterprise. If he does that, he reasons, IBM's scientists and engineers will deliver high-quality products that will help customers run their businesses better.

Critics may doubt that—and Gerstner knows that IBM can't rest on its technological laurels. He recently implemented what he calls "one of the most important things I've done." Instead of relying on a chief technologist, as IBM has done in recent years, Gerstner created a technology-assessment system. Now, teams of experts from throughout the corporation's empire will come together to review current and emerging technologies. Gerstner himself will o these efforts.

Much else has happened in the six months since Gers replaced Akers, who threw in the towel after eight yea IBM's executive suite. Gerstner has reversed Akers' plar split the company into autonomous units and has se task forces to explore growth opportunities. He has ord more layoffs and cost-cutting. He restructured senior mar ment and changed the way some executives are paid. He begun reenginee IBM's vast, bur cratic maze. An has promised IBM will execute strategies bette

But the w isn't impres IBM's stock price mains stubbornl the 40s—partly cause Gerstner kept his activi

ON IBM CULTURE:
"I have never seen a company that is so introspective, caught up in its own underwear, so preoccupied with internal processes....People in this company tell me it's easier doing business with people outside the company than inside. I would call that an indictment."

PRESENTATIONS:

ıave never seen foils [slides] like in this company. There must be a manual that says ry foil must have 4 circles, 2 squares, 2 triangles, 16 arrows, and as many of them as ısible should be three dimensional – with shading – and at least 4 colors."

r wraps. Critics, seeing cost-cutting as Gerstner's pri- tangible achievement, want more.

ırstner's plans, in reality, are anything but one dimen- l. As he plots IBM's future, he's relying on a broad but ie conviction: Since information-technology products are ng out with increasing frequency, even knowledgeable mers need help sorting out the confusion. That trend, he ves, will favor IBM, with its broad product line and dwide reach.

Ve must become the premier solution-provider to our cus- rs," he says. That's why Gerstner will keep Big Blue in- offering hardware, software, systems, and services. why he plans to develop a cadre of people with expertise ecific industries who will, when necessary, recommend products if IBM's don't sure up. But Gerstner excluding customers want less from IBM. says he'll let custom- decide the relation- —down to the use of ll-free phone line for ring virtually any IBM luct.

erstner's "solutions" is hardly a new notion mputer marketers—or BM. And even if the CEO does better than predecessors in instill- this approach, skeptics stion whether custom- will trust IBM or any r hardware maker to truly impartial when gesting the best solu- s (page 96).

n response, Gerstner s the skeptics to wait see. "What I'm trying lo is deliver results not mises, results not vi- , results not concepts," says. "The world is cyn- about IBM's promises." ecifics will come later. Still, as he prepared to lead the ategy session on Sept. 19, he continued to talk freely ut his tenure at IBM.

f the new job weighs heavily on Gerstner, he barely shows it. Ever intense, he seems energized by the chal- lenge. He regularly strides down the tangerine-carpeted s of IBM headquarters in shirtsleeves to find someone he st see at that very moment—to the surprise of staffers d to being summoned for scheduled sessions with CEOs o rarely left the corner office. "Before, there was no im- mptu anything," says a veteran IBMer.

Only the fishbowl aspect of the job annoys Gerstner. De- ibing a recent visit to his father in the hospital, he says dad complained about being stuck frequently with nee- s. "'Why do they keep doing this?' he asked me," Gerstner nembers. "And I said I feel the same way."

So might IBM—with Gerstner the master prober. Upon his arrival, Gerstner asked each of IBM's 13 division chiefs to write a 10-page report detailing the business environment and critical issues the unit faced. He then spent a half day going through each business unit with its senior staff. He flew to Europe, visiting four countries in five days. Also on his agenda: lunch with former CEO Thomas J. Watson Jr., the founder's son, and talks with former CEOs Akers, John R. Opel, and Frank T. Cary. He put in time reading letters from customers and E-mail in which employees poured out their thoughts and, sometimes, their hearts.

"For the first month, I listened, and I tried very hard not to draw conclusions," he says. Even so, Gerstner's mind tended to race ahead. He woke up nearly every night at 3 a.m. "with an answer that was clear. By 6:30, it was murky again." Before long, Gerstner was making initial judgments: "I knew I had about 30 days before I had to start saying something, and that's when I came out with the four priorities."

On Apr. 21, Gerstner told his top 24 managers that the company was going to concentrate on "right-sizing," developing strategic directions, improving employee morale, and "bear-hugging" customers. The last served a second purpose, aiding Gerstner's fact-finding: In each of the next three months, he ordered everybody in the room to meet with five customers, both large and small. Each of their subordinates was told to do the same. He instructed everybody to send him a report on each of these visits—which he took home to read each night.

Gerstner revealed his priorities publicly on Apr. 26 at IBM's annual meeting in Tampa. The confab, packed with 2,300 shareholders, was his official debut. It was no party. Angry attendees lashed out at IBM's board. For two-and-a-half hours, Gerstner took questions. Answering one, he revealed that he would not split IBM into freestanding Baby Blues—his first break with Akers' plans.

By mid-May, Gerstner had finished his initial internal fact-finding. Much of what he found he didn't like: Personnel, compensation, data-processing, and other administrative systems were a mess. IBM was hamstrung by internal wrangling among units. Oversight by headquarters strangled action. Some dealings required 18 signatures. It was "bureaucracy run amok," he later said.

Continuing on his information-gathering mission, Gerstner now went outside IBM. He consulted with the heads of most

WHAT GERSTNER HAS ACCOMPLISHED SO FAR

STRATEGY Plans to keep IBM together, offering hardware, software, and services to provide "solutions" for customers, big and small. Started boosting industry-specific expertise. Formed 12 task forces at a strategic planning session in late May in order to study growth opportunities.

TECHNOLOGY Set up a new technology-assessment system in which teams from around the company will come together to make judgments about technology.

COST-CUTTING Ordered 35,000 additional layoffs and established nine task forces to trim $1.75 billion from overhead in such areas as information systems, inventory management, purchasing, and transportation.

NEW HIRES Brought in a new chief financial officer, Jerome York, from Chrysler and a new senior vice-president for human resources and administration, Gerald Czarnecki, from Bank of America-Hawaii.

MANAGEMENT STRUCTURE Set up a new 11-member executive committee to promote greater corporate cooperation and formed a 34-member worldwide management council that will discuss operating results and company practices and problems.

PAY Set up a new compensation program that rewards top managers for companywide performance rather than an individual unit's.

DATA: BUSINESS WEEK

major U. S. information-technology companies—Gates and Grove among them. He talked with other top executives. The longest session—six hours—was with John F. Welch Jr., CEO of $57 billion General Electric Co. Gerstner wanted to know how Welch leveraged GE's size without being stymied by it. Welch calls it "making 'big' pay."

As these thoughts swirled in Gerstner's mind, he convened his first planning forum, a two-day affair in Chantilly, Va. There, Gerstner set up task forces to study 12 areas of strategic concern (table). Covering product areas, such as multimedia and software, and other opportunities, such as customer service, the titles show how Gerstner first viewed IBM's future. Now, he says the groupings "weren't perfect.... But I didn't want to wait six months to define the issues exactly right." Gerstner says two of the 12—he won't say which—were resolved during the Sept. 20-21 strategy session. Two more replaced them.

ON MARKETING:
"OS/2 2.1...Why couldn't we call it Wagoneer—or Cobra? Something more exciting than OS/2 2.1. It would be hard to make a jingle."

Gerstner stayed a day longer in Chantilly. U. S. sales chief Robert J. LaBant was hosting a 200-customer forum on May 19, and Gerstner kicked if off with these words: "One of the most important things I can say to you is there is now a customer running IBM." He promised to focus on delivering value and quality. Attendees, having heard much of this before, asked tough questions. They didn't hide their disappointment with IBM's past rescue plans, either. Louis Valente from SmithKline Beecham PLC asked Gerstner when customers could expect change. "Now. We're going to put a blowtorch to these things," Gerstner vowed.

June was filled with more meetings, more trips. On the Fourth of July, Gerstner flew to Tokyo to meet customers. When he got back, he faced several major decisions, as IBM prepared to report second-quarter earnings on July 27. The largest: a write-off to cover restructuring. Gerstner spent a week looking at IBM's financial outlook through 1995. He huddled often with Jerome B. York, the new chief financial officer.

They had plenty to chew on. IBM's gross margins had sunk from 55% in 1990 to 40%, or about industry average, in 1993. Meanwhile, its operating expenses hovered around 30% of sales. Throw in research outlays, and IBM was spending 42% of sales on expenses in 1992 vs. 31% spent by rivals. Unable to charge its once standard premium prices, IBM started posting operating losses in late 1992.

One day, York walked into Gerstner's office with some surprising numbers. While IBM was slashing its work force by 120,000, other outlays had skyrocketed. Using numbers from the first half of 1993, annualized, York had found that while personnel costs dropped by $3 billion from 1990, other expenses had jumped by $7 billion. Too much inventory was being written off. Benefits, warranty, and purchasing expenses were rising. Data processing was costing IBM 7% of sales, vs. an average of about 2% at other U. S. companies. IBM's CEO nearly fell off his chair.

ON STRATEGY:
"We've got to eradicate out of anybody's mentalit in IBM that we don' cannibalize our product."

Worse, York couldn't determine why it had happe The costs were spread around 13 operating units. And v IBM was decentralized in late 1991, management didn't a its data-gathering system. York and Gerstner establi nine task forces to study IBM's information systems, inv ry management, purchasing, transportation, and other ac istrative areas. Reports are due at the end of Septemb

Meanwhile, the two worked backward from the nume IBM collects about its rivals. To get costs in line with or ter than theirs, they figured IBM has to cut $7 billion fro expenses by 1995. About $5.25 billion will come fron ready announced work-force cuts and operating efficien The task forces will find the remaining $1.75 billion in c head. For now, IBM plans no more layoffs or write-offs.

Gerstner released the $7 billion cost-cutting goal on 27, as well as second-quarter results an $8.9 billion write-off. That's when he n his first mistake. Speaking at New Yo St. Regis hotel, Gerstner told the pr "There's been a lot of speculation a when I'm going to deliver a vision. last thing IBM needs right now is a vis What IBM needs right now is a serie very tough-minded, market-driven, hi effective strategies in each of its busin es." He was hammered. Some news rep printed only the middle sentence. Cri including many customers, had a field

Gerstner has his reasons: "I could sp a lot of time focusing this company mission statement, and [employees] w love it. There would be debate instea action, when the most important thing had to do was implement better and s er. I want to stay away from abstract and deal with the marketplace."

That won't satisfy the doubters, tho And Gerstner keeps getting nagged. W one employee asked about it at a mid- gust town meeting, Gerstner blurted "Our mission is to be the most succes information-technology company in world. O.K., you want a vision statem Fine, we got it, now let's go back to wo

All the while, Gerstner was calling customers and chatting by phone with least two a day. Inside IBM, too, he gra ally has been working his way arou striving to be "visible, showing what d this new guy look like and sound like."

Gerstner usually begins a site visit v a management meeting, often over a m He goes around the table asking each p son what exactly he or she does. Then, probes. "He uses a Columbo-style," s

PONDERING BIG BLUE'S FUTURE

In May, Gerstner created 12 strategic task forces and charged them with exploring ways to get IBM growing again. His candidates, secret until now, reveal how he views the future:

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(THE LINKING OF SMALL AND LARGE COMPUTERS)

MULTIMEDIA AND MOBILE COMPUTERS
INCLUDING LAPTOPS, NOTEBOOKS, AND WIRELESS TECHNOLOGIES

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FOR EXAMPLE, SYSTEMS DESIGN, DATA PROCESSING, AND MAINTENANCE

HARDWARE ARCHITECTURE
FOCUSING ON "POWER ARCHITECTURE" (THE USE OF IBM'S POWERPC CHIP IN BROAD APPLICATIONS)

SOFTWARE ARCHITECTURE
WITH AN EMPHASIS ON OPERATING SYSTEMS

APPLICATION SOFTWARE

OTHER SOFTWARE
(FOR EXAMPLE, DATA-BASE SOFTWARE)

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CUSTOMER SATISFACTION

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DATA: BUSINESS WEEK

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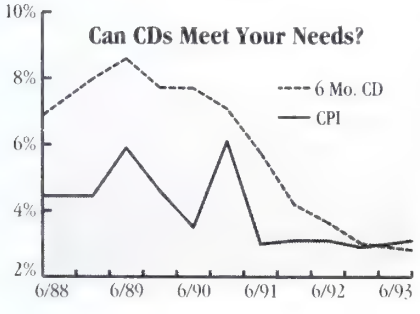

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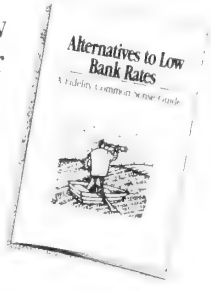

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ON SALES:
"The concept o one face to the customer ende a long time ago and everybody knows it."

FIELDING QUESTIONS FROM A BRITISH CUSTOMER OVER DINNER

Bond Isaacson, director of marketing for IBM's Mid-Atlantic sales region. "He'll say 'Help me with this—it just doesn't make sense that...' It's effective because it gets people talking."

To get to the rank and file, he sets up separate meetings without managers and tours plants or offices. Finally, he takes to the hustings in mass gatherings, leaving about 90 minutes for questions. He uses these exercises "to test-market my ideas."

ON THE PAST:
"As far as the culture goes, I haven't been spending time looking back... because I don't want it to get me."

Back in Armonk, Gerstner kept noodling over organizational issues. Outsiders suggested more decentralization, which worked well with IBM's PC company. But that, he worried, might worsen IBM's paralyzing turf battles.

For a few days in mid-August, he decided to go home at midday, taking papers to read in his library. "I was wrestling with decentralization because at heart I'm a decentralizer," he recounts. "But as I was looking at mail and customer reports, it became increasingly clear to me that the real issue of effectiveness, of winning in the marketplace, was finding ways to make the company work horizontally."

To thrive, he believes, IBM must spread its technology across product lines—for example by using the PowerPC chip throughout its computer line. It has to design products and systems that will meet customer needs, not just sell technology for technology's sake—and not become merely a services company. Finally, it must leverage its global size. Says Gerstner: "When a manufacturing company in Spain looks to IBM for a solution to a problem, they expect us to bring the best of IBM worldwide to it, not just the experience of IBM Spain." It would be foolhardy to break into Baby Blues. It would also be an acknowledgement of man ment failure.

Since this breakthrough, Gerstner has been desig ways to decentralize what he calls "the things that matte running a business" but reinforce the things that ber from size. That means decentralizing some things and cen izing others. "We're going to be complicated—there is simple solution," he says. So while unit manag can expect to define their customers, design t own products, manage most of their costs, and prices, they'll be expected to cooperate m on such issues as technology and product nouncements.

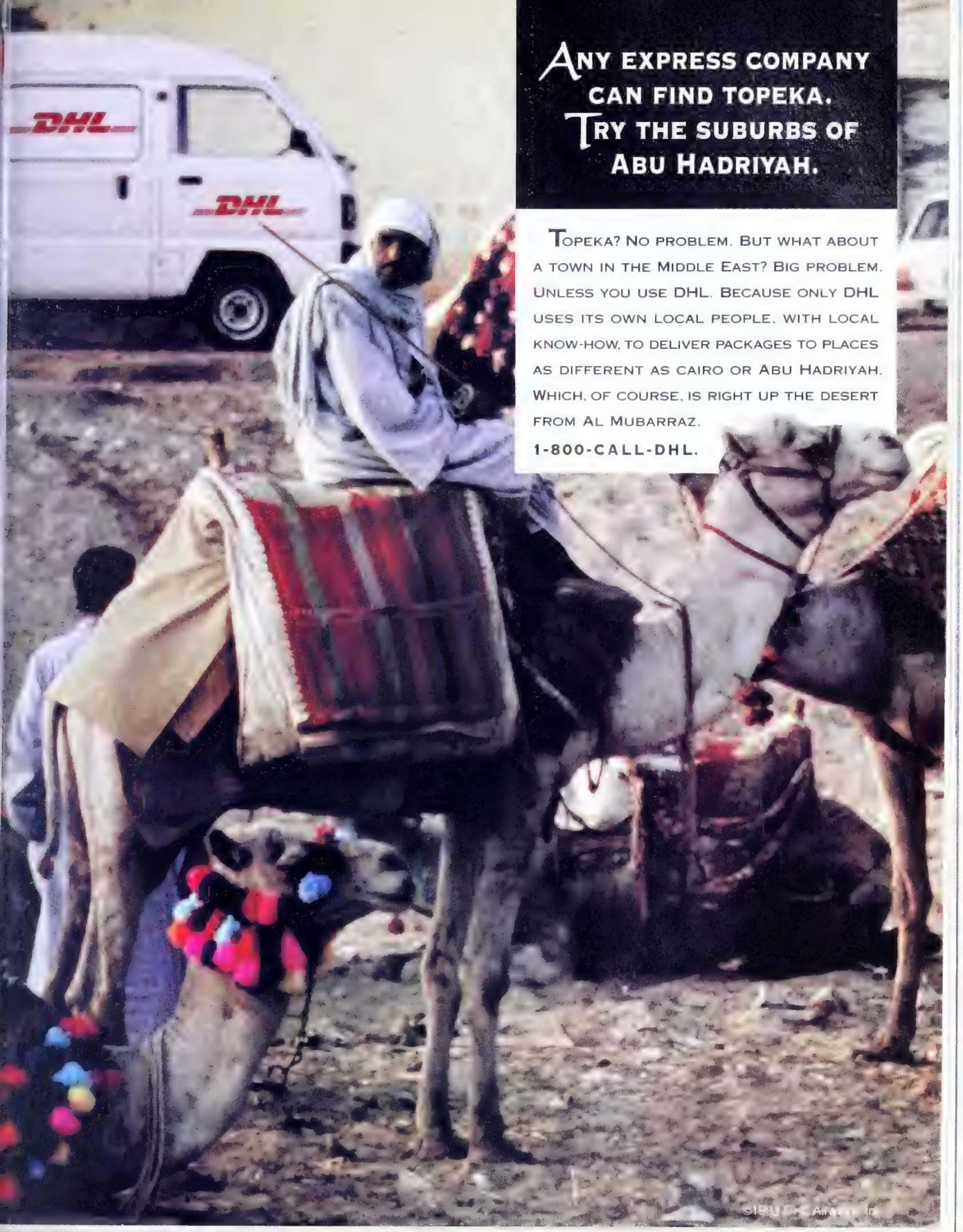
To make IBM more cohesive, Gerstner on S 13 announced two changes in management st ture. He created an 11-member executive pa composed largely of operating chiefs, to m them find ways to work together better. He already chaired its first meeting. Over lunch Sept. 10, they talked through several issues, s as the sharing of intellectual property. Gerst also changed the way panel members are p Pay will now depend on companywide resu not unit numbers. By 1995, IBM will alter c pensation for another 100 to 200 top managers.

Next, he borrowed from Welch. Gerstner had stop convening IBM's powerful three-member management comm tee, which set broad company policy and made many ope ing decisions. In its place, copying GE's corporate executi council, he instituted a "worldwide management coun Its 34 members—operating chiefs, geographic managers, staff heads—will meet four or five times a year to annou operating results, compare practices, problems, and s tions, and thrash out companywide initiatives.

In August, Gerstner tinkered with one more bit of IB structure: He set up the new technology-assessment s tem. When former IBM President and Chief Technolog Jack D. Kuehler retired in August, Gerstner decided not replace him. Instead, field experts—not staff in Armonk—w now guide technology investments. To enhance his r Gerstner has already visited IBM's main lab in Yorkto Heights, N.Y. three times.

Gerstner doesn't believe these new structures are enou

ON TECHNOLOGY:
"We don't have to worry about technology. That makes me feel good.... If that had been the problem, then I'm the wrong guy, and I should be running Kodak or something."



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LOB, ANYONE?

Like any outsider, Lou Gerstner had to learn a new language when he joined IBM. But he struck back on Sept. 13, banishing the term LOB—line of business—to make IBM more "customer-friendly." Product units will now be called divisions. A look at IBM's lexicon shows that Big Blue's CEO has a lot more work to do.

ALL OVER THE FLOOR A situation that has gone out of control, as in "this product announcement is all over the floor."

THE APPLE ORCHARD (OR, THE ORCHARD) IBM's Armonk (N.Y.) corporate headquarters, which was once an apple orchard.

BIG IRON Mainframe computers.

BOIL THE OCEAN To exercise vigorously every possible option to resolve an issue, as in "he's really boiling the ocean on that problem."

DATA: BUSINESS WEEK

BUCK IT UP TO CHQ To send an issue to the corporate headquarters for resolution.

CRISP UP To improve a foil (overhead slide) presentation.

DOWN-LEVEL VERSION A document that's no longer relevant, as in "he's working from a down-level version."

FLATTEN To resolve an issue, as in "we have to flatten this before tomorrow's meeting."

GOAT-ROPING A gathering of the key players needed to resolve an issue, as in "we'll have to have a goat-roping on this PC pricing strategy."

HYPO A high-potential employee, generally destined for management.

LEVEL-SET To give a brief summary at the outset of a meeting, as in: "Before we begin, let me level-set."

NONCONCUR To disagree.

ONE PERFORMER An employee with IBM's top performance rating, as in "Mary is a real one performer." Opposite: Four check, employee with IBM's lowest performance rating who could be fired if he doesn't impr in a brief time period, known as the "measu mile."

PROFS Professional Office Systems, IBM's internal electronic mail system. Also used a verb, as in "PROFS me on that."

PUSHBACK A nonconcurrence, as in "I took the issue past Al, but I got a lot of pushback."

RESWIZZLE To improve something, as in "Frank's boss asked him to reswizzle his foil Synonym: To tweak.

SPEEDS AND FEEDS Technical specification of products, as in "Give me the speeds and feeds of that new workstation."

TAKE IT OFF-LINE To discuss an issue, usual on a one-on-one basis, after a meeting.

TALK TO THE FOILS To give a presentation ing an overhead projector.

to prompt change in IBM's ranks. For that, he wants to manage "by principle rather than procedure." It's a hard-to-define concept. "It means when a situation arises, you don't go to a manual. You know in your heart and head what to do." To ignite this cultural revolution, Gerstner will change IBM's training and management-development programs. But he struggles to define what else he'll do. Finally, he says: "There is no formal way to change attitudes. It takes communication and reinforcement."

"It's just getting out and being me," he adds—without a trace of self-consciousness.

Lou Gerstner is not an immodest man. He can even be unassuming. Nearly everyone calls him Lou, including IBMers who still refer to "Mr. Akers."

But Gerstner does speak his mind. When an employee asked, "how are you going to compete with Microsoft?" he bristled and said: "I would have preferred if you had phrased your question, 'how are we going to compete with Microsoft?'" His friend, Vernon R. Jordan, recounts how, on a fly-fishing trip to Alaska in 1992, Gerstner was his roommate. "He would wake me up because he said I was snoring and it was disturbing him," the Washington lawyer says. "What I didn't tell him was that his snoring disturbed me."

When he takes control, Gerstner sometimes riles people by pulling a little too hard on the reins. At RJR, sitting down to dinner with four grocery-chain CEOs, he amazed his guests—all customers—by assigning each a topic to discuss. Others tell of times when he's so brisk that he seems rude. He takes his competitive drive everywhere. On the golf course, where he's a mediocre player, he has soured some outings by pressuring partners to win.

Yet by all accounts, Gerstner can be quite charming. He will banter with anyone who can engage him. Colleagues also admire his devotion to his fami his wife Robin and his children, Louis, a college junior, Elizabeth, a freshman. When they were young, Gerst always left work early on report-card day. Even now, he t to depart around 6:30 p.m., usually with briefcases of pa to review in his traditional brick home in Greenwich, Co On weekends, when he's not golfing, he likes to put around in a vegetable garden. He regrets not having m time at his second home, in Hobe Sound, Fla.

But Gerstner never lets up—and never has. He grew u a middle-class Catholic home in Mineola, N.Y., the secon four sons. Both parents worked. Education was the ke success, and Gerstner excelled at Chaminade High Sch Dartmouth College, where he earned a degree in engineer magna cum laude, and Harvard business school. He did as well when he joined the work force, winning accolades his marketing and strategic skills.

His credentials impressed IBM's search committee. So his reputation as a quick study whose mind rarely strays from business. RJR President Lawrence R. Ricciardi rem bers their first trip together, when both worked at Am The pair arrived in Brussels and went for a walk. While R ciardi was taking in the scenery, he noticed that "Lou walking slowly and looking at all the storefront window soon realized that he was counting American Express dec to see what percentage of stores we'd penetrated."

Ricciardi says Gerstner wanted this job: "It will be business story of the decade, he's got an opportunity now t he didn't have at American Expr or RJR. They're not of the sa magnitude as redirecting an inst tion like IBM. So I think he's fi up."

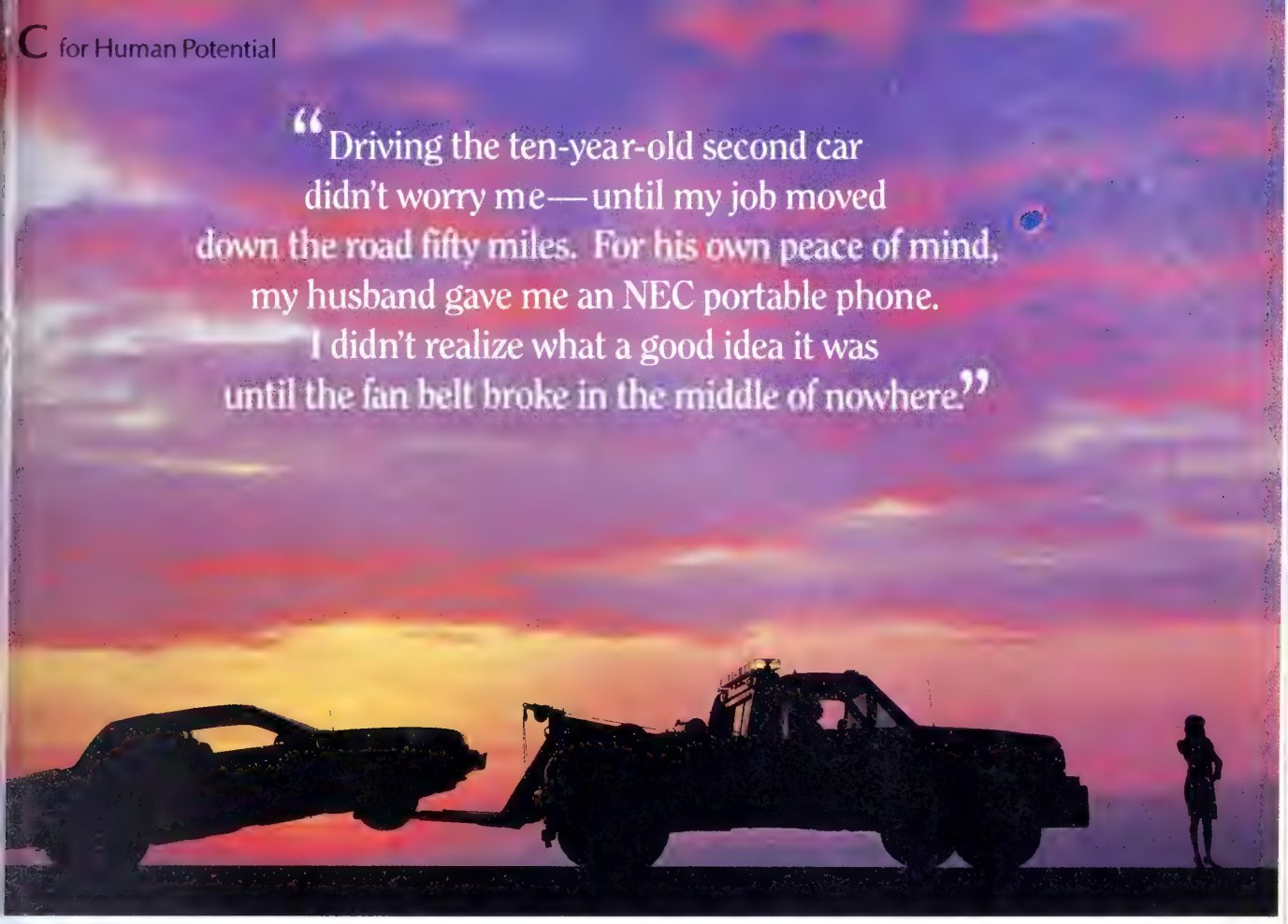
ON PROTOCOL:

"A corporate culture has to be built around expectations of performance, not rules of behavior....If in the IBM lab in Austin everybody decides they want to come to work in jeans and sandals, God bless 'em."

Gerstner is working six-an half-day weeks, 16- to 18-h days. "There have been so days when I said, 'this is rea

C for Human Potential

"Driving the ten-year-old second car
didn't worry me—until my job moved
down the road fifty miles. For his own peace of mind,
my husband gave me an NEC portable phone.
I didn't realize what a good idea it was
until the fan belt broke in the middle of nowhere."



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tough,'" he admits. "I would spend hours absorbing the technology, racing from one issue to another. Just getting my arms around the dimensions of this company can burn you out at the end of the day." Still, he adds, "by the next day, I'm ready to go again."

One sign of his drive: Employees of RJR Nabisco, accustomed to the serious side of Gerstner, have been stunned to learn that he's funny and self-effacing at IBM. But RJR—having enjoyed the free-spending reign of Gerstner's predecessor, F. Ross Johnson—hardly needed loosening up. IBM does. The change says something about Gerstner's management ities: He will do whatever it takes to accomplish a job, adapting his personal style. Says one RJR manager "must be working very hard at this. That reinforces wha always said about Lou—he has a tremendously strong maybe the strongest I've ever seen."

Like many people, Gerstner sees Sept. 1, as much a 1, as the start of a new year. So he spent August thi about his next phase at IBM. York's numbers provide foundation: He wants to end the company's preoccup

IBM WATCHERS STILL FIND PLENTY TO CRITICIZE

While Louis V. Gerstner Jr. says he's doing what's needed inside IBM to right the computer giant, the huge community of IBM watchers outside remains skeptical. For all his organizational change, analysts, consultants, customers, and competitors say they still can't figure out what course the new CEO is charting.

Just listen to Apple Computer Inc. Chairman John Sculley, the man who, for a while anyway, built Apple into both a technological and marketing powerhouse: "I think Gerstner's doing a terrific job on all the things people would expect him to be good at—being a professional manager," says Sculley, who recently resigned as Apple's CEO—after his devotion to new technology put Apple off course. But in the computer industry, he says, you have to do both: be a good manager and keep moving ahead in technology, too. "People in this industry can't wait until IBM gets its house in order. As a consequence IBM has become invisible."

"SYNERGIES." To be fair, part of Gerstner's strategy is clear: He has repudiated the radical decentralization proposed by his predecessor, John F. Akers: He won't be spinning off any Baby Blues. He says he won't break up the huge IBM sales force by lines of business, either. These moves stem from his basic thesis: Customers want "solutions" to increasingly complex information-systems problems that only a company with IBM's product breadth and global reach can provide. Beyond that, he isn't pronouncing any sweeping vision.

Of course, Gerstner isn't expected to work miracles overnight. And everyone concedes that the former CEO of RJR Nabisco, who had never worked in the computer industry, has to climb a steep learning curve. "If I hadn't had a background in the business, it would have been much, much harder for me to make the right decisions," says Unisys Corp. turnaround CEO James A. Unruh, who was a seven-year veteran of the then-ailing mainframe maker when he took the helm three years ago.

But while Gerstner is learning the ropes, his competitors are working overtime to win IBM's customers. As Hewlett-Packard Co. CEO Lewis E. Platt puts it: "We get up every morning and think about killing them." The bloodlust appears to be paying off: This past summer, two large mail-order companies replaced their IBM mainframes with H-P minicomputers.

Other big buyers could be ripe for the picking as well. In a recent Forrester Research Inc. survey of 50 of the 1,000 largest U. S. companies, 42% said they plan to cut back on IBM purchases, 26% say they are watching the company closely and may reduce purchases later, and only 2% plan to increase their IBM spending. "I give him another two to six months to work out a strategy," remarks Jack M. Cooper, chief information officer of Seagram Co., a big IBM customer. "After that it's absolutely critical that he ... sion."

There's that vision thing again, though Gerstner says he is fe... "vision" ques... tomers and ... want to kn... technological ... will have g... ward. After ... tomers don't ... spend mill... equipment t... not have th... ny's support ... years.

The mos... move is to ... PowerPC, a n... processor fa... it is develop... Motorola Inc. ... ple, the core technology—for ev... from handheld PCs to mainfra... some IBM employees and anal... that there is still no clear sign ... whole of IBM is behind this effo...

Customers aren't the only ... are worried about IBM's directio... tors are still waiting for proof ... around: The shares haven't bud... the low 40s all summer. Not to ... anxious employees. "I think peo... hoping for something really bo... one division manager, who plans ... IBM shortly. This manager is c... that the only outsiders Gerst... hired on are business manag... cerned with cost-cutting. "Pe... pretty disappointed that he's ... dling with the bottom line. He h... bring in a strong technologist."

POCKETS OF POLITICS. Gerstner ... cided not to replace former P... Jack D. Kuehler, Akers' technol... For now, Gerstner relies on the... ments of longtime IBMers, suc... Bernard Puckett, named chief s... in July. But some critics think ... to the veterans could lead to a r... of past mistakes. "There are a l...

"People are pretty disappointed that he's only fiddling with the bottom line. He has yet to bring in a strong technologist."

—IBM division manager preparing to leave

EMPLOYEES

HOW'S HE DOING?

Gerstner's constituents take his measure

"I give him another two to six months to work out a strategy....After that period of time, I think it's absolutely critical that he have a vision."

—Jack M. Cooper, chief information officer of Seagram

CUSTOMERS

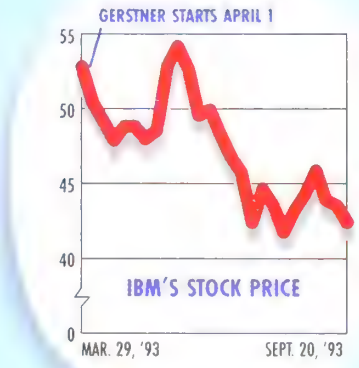
head count as a focal point of productivity increases. In-
, he will shift the spotlight to IBM's processes and pro-
·es. His new management committees should start pro-
g results, too. And the strategy debate will point him in
directions.

r now, Gerstner has more skeptics than fans. For every
Watson, who says he's "impressed" and "very optimistic"
t the company under Gerstner, there are dozens of
ters. But he's not concerned. "Outsiders are looking
single silver-bullet solution for IBM's future, and there
one," he says.

·rstner, in fact, is upbeat. In August, he spent $772,250 on 17,500 shares of stock. In June, despite job pressures, he shot his first-ever hole in one, the seventh hole at Monterey's Cypress Point course. And he's settling in at Armonk. He recently rummaged through IBM's basement and found a raft of antique calculators. He's having them placed around the headquarters building, which he likens to an insurance company's. And he's moving some of the machines into his own office.

One CEO who briefly chatted with IBM's search committee calls the task "a 10-year" job. Gerstner wouldn't agree. He would say it was never going to end.

By Judith H. Dobrzynski in New York



SHAREHOLDERS

io participated in IBM's ruination
still at the top of the company,"
les Ferguson, co-author of *Com-*
rs, a scathing book on IBM's fall
ce.

er, however, says he's got some
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o make IBM the premier solu-
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cluding IBM under Akers—has
d for most of the past decade,
ed results, analysts point out.

ven if Gerstner's housecleaning
inate the internal problems that
kers' efforts to focus the com-
selling solutions, IBM still faces
les. First, while customers may
to find somebody to put all the
gether, they won't necessarily
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rchased an Amdahl Corp. main-
ecause, he explains, "I believe in
tion."

ner problem is the fear that, de-
M's assurances to the contrary,
ny that's in business to sell com-
puters can't really be impartial in selecting the best hardware for a customer "solution." IBM says it has installed non-IBM equipment when it's better for the job, but customers are still leery. Says Sekely: "I wouldn't trust them to do that."

Part of the solutions push will come through Integrated Systems & Services Corp. (ISSC), a unit established in 1991 to expand IBM's presence in systems integration and outsourcing—which involves taking over a client's entire computing shop. ISSC brought in $1.8 billion in revenues last year, and analysts have been heralding the tightly focused unit as a good model of what IBM might become. But competitors say they are not alarmed. W. James Fischer, managing partner for technology services at $3 billion Andersen Consulting, says IBM has never been a big player in the systems-integration-consulting business, and nothing much has changed since Gerstner's arrival. "They're spending an awful lot of money to change their image. I see a lot of ISSC ads," says Fischer. "What I haven't seen is a lot of money spent to change how they do services."

"They're spending an awful lot of money to change their image....What I haven't seen is a lot of money spent to change how they do services."

—James Fischer, managing partner, technology services, Andersen Consulting

COMPETITORS

Gerstner isn't likely to care what the competition is saying, however. He insists he wants to learn from the customer—and that could be a problem. Industry insiders say that many of the customers who are getting his ear are IBM's largest accounts, and this could give a skewed perspective. "Sixty percent or more of IBM's business comes from shops that would not consider IBM their primary suppliers," says Peter Burris, International Data Corp. analyst. "He must get out and talk to a wider variety of customers."

Furthermore, some customers suspect Gerstner's major-account tour is rigged by IBM's sales execs to skirt those shops that aren't that happy with the company. The chief information officer at a major financial institution, one of IBM's biggest customers, says he has not been invited to meet with Gerstner. If he were, he would tell Gerstner of the need for "some serious new thinking" at IBM. "I'm really disappointed that he's taking this long to get a handle on the technology."

"BE AHEAD." Besides, while customer focus is nice, it doesn't necessarily translate into technology leadership. "That has always been IBM's trap: 'Let's find out what the customer wants,'" says George F. Colony, president of Forrester Research. "You have to be ahead of the customer. The customer can't know what he wants. No customer asked Ken Olsen [of DEC] for a VAX. No customer asked Tom Watson [a former IBM CEO] for a 360," he says, referring to a top-selling minicomputer and a mainframe.

So it all circles back to a vision—something that Olsen and Watson had plenty of. "Everyone who is doing well in this industry has some clear vision of what they are doing," points out Sculley. "The track records of many companies speak for a clear and compelling vision. George Bush didn't have a vision, either." Not a comforting thought for the legions of IBM watchers out there.

By Catherine Arnst, with John W. Verity in New York, Kathy Rebello in Tucson, and bureau reports

INSURANCE

...AND HOW ARE WE FEELING TODAY?

The prognosis worsens for insurers' managed-care programs

Everything was looking so good. After more than a decade of effort and hundreds of millions of dollars in losses, big insurers last year were finally seeing some reasonable returns from the managed-care networks they had labored to create. CIGNA Corp.'s health plans earned $52 million last year, 17% of the company's total net income. And Aetna Life & Casualty Co. saw its health-maintenance organizations turn a $4 million profit in 1992, after suffering a $3 million loss in 1991.

Even better, the industry's bet on managed care was turning out to be politically correct in a big way. Bill Clinton swept into Washington promising to control health-care costs by reforms centered around the very sorts of integrated networks of doctors and hospitals that the big insurers were already in the process of building. The future looked rosy.

Not any more. Several key aspects of the Administration's current health-care plan could severely undermine the fortunes of the big insurers, especially those of the Big Five—Aetna, CIGNA, Prudential, Travelers, and Metropolitan Life. Provisions to cap the growth rate of premiums could badly damage their revenues and profits. And the Big Five may fare surprisingly poorly against regional insurers in the crucial competition to serve the new health alliances, which will be composed of businesses grouped together to give them health insurance purchasing clout.

But it's price regulation of managed-care premiums that poses the most immediate threat to consumers, that could spell end to predictable insurance prices. Such price regulation, in the form of caps, could slice as much as 5% from what insurers' health premiums would have been in future years without reform, says Lawrence G. Mayewski, a senior vice-president with the insurance rating agency A.M. Best Co. Small underwriters that can't afford to build managed-care networks probably will suffer most because of the focus on networks, but "it would likely be felt by the large insurers," says Mayewski. "Clearly, it's not going to be an attractive situation."

TIGHT CAPS. Price caps, for one thing, would limit profits, which could lead to talk about downgrades in credit ratings. That, in turn, could hurt large insurers' efforts to raise capital, which could inhibit their ability to build up their managed-care networks. These networks, concedes Thomas P. Pyle, chief executive officer of MetLife HealthCare, "are not very far along." Reduced resources, he says, "would be devastating to the development."

Lesser profits, insurers claim, would also limit them in developing programs that could ultimately reduce costs and improve care. Caps "will unwittingly destroy the integrity of a reform system," says a Metropolitan Life Insurance spokesperson. "It will probably discourage the kind of investment that needs to be made to give the quality of care we would like to offer." Kent Anderson, a White House spokesman on health-care reform, says consumers will go where the best health care is provided: "There's nothing that poses a danger to the quality of care. I think a lot of the fears of Draconian cuts in quality of care are unfounded."

Insurers also dislike the prospect of being dictated to by a national health board, a key reform proposal. Such a board would determine the cost of a standard benefit package and the per-person premium needed to cover the co

HOW HEALTH REFORM COULD HURT BIG INSURERS

INTENSIFIED COMPETITION New purchasing cooperatives would select a handful of insurers to provide coverage in each market, but the Big Five health insurers might not make the cut. They have far-flung managed-care networks, but they could lose out in many markets to entrenched regional insurers, who have signed up many of the best doctors and hospitals.

PREMIUM CAPS Restrictions on premiums may limit how quickly insurers can raise rates. That could hurt revenues and lead to credit downgrades and difficulties raising money in the capital markets at favorable rates.

LESS FLEXIBILITY Proposed national health board will dictate benefits packages insurers can offer. That could reduce ability of big insurers to increase market share with proprietary products.

DATA BUSINESS WEEK

rs fear that the board will tell what care to provide and how of- aking their products more of a dity and reducing their ability to t proprietary health care. "It'll be o gain market share because you have flexibility," says MetLife's referring to the new regulations. W. McLane, group executive of 's health insurance operations, has ilar view: "What concerns me health-care reform is that it's go- screw up what we could accom- n our own."

en if insurance lobbyists manage it back price controls, other facets lth-care reform aren't shaping up bounty big insurers expected. A art of the Administration's plan is rmation of large regional health es, which would be able to use purchasing clout to force down ums. The number of managed-care lers chosen is expected to be limit- he alliances would likely contract a handful of companies in each

LER AND NIMBLER. The Big Five gured to be key players in serving alliances. They certainly have far-flung managed-care systems. nfortunately for them, smaller play- uch as Humana Inc. and Kaiser anente are much more entrenched ny regional markets. "A lot of local rs have very strong footholds, high- ty networks, and they're currently writing a lot of accounts," observes y S. Moyer Jr., a partner at Hirsch- Stern, Moyer & Ross Inc., an em- e benefits consulting firm.

o respond quickly to change is more difficult for large insur- explains John Gannon, partner harge of KPMG Peat Marwick's h-care consulting practice. "The l, nimble insurers can move ker and tie up a market or certain uct niches."

he best-positioned large insurer, A, is among the top three insurers ly 15 of the 40 largest managed- markets, according to figures from study, a research firm based in St. Minn. Travelers fares the worst, ting among the top three in only of the top 40 markets. "If you look he Big Five, an awful lot of their ess is spread out," comments Larry ance, executive vice-president of ford Life Insurance Co., which re- y sold its medical and dental busi- to Massachusetts Mutual Life In- nce Co. because of impending re- . "In some markets, they're going to to close up shop."

he big insurers vow to fight the —and fight hard. With the stakes gh, they can't afford to lose.

By Chris Roush in Hartford, Conn.

ARMORED AND DANGEROUS

Did bank insiders help Revere take clients for a ride?

The demise of Revere Armored Inc. last February was full of drama. The armored-car company closed its doors after its major insurer, Lloyd's of London, learned of irregularities and canceled its insurance, and the Federal Bureau of Investigation descended on its Long Island offices. Revere's owners, Robert and Susan Scaretta, were charged with bank fraud and are awaiting trial. And bank clients, who used Revere to transport and store cash, claimed millions of dollars in missing funds, which may not entirely be covered by insurance.

Now, though, the focus of the Revere drama is moving in new directions. For the past several months, federal investigators had their sights on Revere employees. But sources close to the investigation say prosecutors are now also looking into the activities of bank employees. One Revere employee, William J. Butler, who joined that company from National Westminster Bank PLC, already has pleaded guilty to taking a bribe while at the bank. Prosecutors are examining other banks as well.

Evidence produced by the government probe and private investigators is providing new details about the apparent laxity of Revere's clients in dealing with the company. Several banks appear to have audited Revere's activities only loosely and overlooked warning signs of problems detectable in its publicly available financial statements. "My question is why didn't they get as much information about Revere as they would have gotten had I walked in to get a $10,000 loan," says Peter F. Wright, president of West Hartford (Conn.) insurance broker Kelly Associates.

WARNING SIGNS. NatWest, a major client of Revere, appears to have been particularly casual about the relationship. Officials of the bank conducted an audit of its holdings at Revere in May, 1992, and found $6 million missing. Three days later, a NatWest officer sent a memo to an audit committee of senior officers saying: "A decision by the outside vendors to take funds can easily be made, regardless of the controls that exist within the location, since the vendor has total control over the funds." Even so, NatWest continued to do business with Revere, which made up the shortfall by depositing about $6 million in NatWest's account at the Federal Reserve Bank the following day. A spokesman says NatWest closely monitored its

NATWEST KEPT USING REVERE DESPITE AN AUDIT GAP OF $6 MILLION

holdings at Revere after discovering the shortfall. But the bank never returned to Revere to audit its account.

Marine Midland Bank also apparently ignored warnings. Early in the year, an industry source says, bank officials were warned that Revere's insurance was being canceled. But the bank, the source says, circulated an E-mail message telling staff to disregard the information. A Marine Midland spokesman declines comment on the bank's relations with Revere, citing ongoing litigation, but says that, in general, the bank believes it thoroughly checks on any outside vendor it uses.

Even without specific warnings, though, banks who contracted with Revere could easily have detected that things might not have been as they seemed. Some red flags already have been reported: Revere's bids for new business were sometimes a mere fraction of what competitors were charging, for one thing.

SHODDY REPORTS. But more telling signs of problems were overlooked, especially Revere's financial statements. Like any trucking company, Revere was required to file publicly available annual financial reports with the New York State Transportation Dept. Industry experts say Revere's filings should have raised some questions in bankers' minds. Partly handwritten, they said that between 1990 and 1991 Revere's revenues more than quadrupled, from $3.7 million to $16.3 million. While operating expenses nearly quintupled, the company's accounts payable barely budged. Depreciation costs also were unusually high.

Unfortunately, the banks appear to have focused not on Revere's financial condition but on its low prices. "The banks could have asked for background to do in-depth financial checking, but they didn't," says Francis M. Mullen, a private investigator who investigated Revere for Lloyd's of London. "Really, I fault the banks in this case. They should have questioned the low prices."

It's not yet clear how costly their lax attitude will be to the banks. Federal prosecutors, in a superceding indictment against Revere's owners, allege they committed insurance fraud in addition to bank fraud. Francis X. Casale Jr., an attorney for the Scarettas, says they deny any wrongdoing. If the Scarettas are found guilty of the new charge, say lawyers, Lloyd's might not have to make good on the Revere clients' claims. An officer at one client bank, though, says he is confident the bank's insurance will cover any losses Lloyd's does not cover.

Nor is it clear whether banks are working to avoid similar situations. Investigators, though, say that banks could take several measures to insure that Revere-type problems don't arise in the future. Banks could start storing their money and their clients' money in their own facilities. Companies have been using outside vendors more and more for this service because it is more cost-effective, but at least one large bank still keeps its money in its own facilities because of sec concerns.

Banks also check on armore companies more tively by conduc joint audits. Revere ents included man dividual merchan addition to the ba there have been dreds of loss cl filed—so getting together for an would have been tremely difficult. so, says Assistant Attorney David Hattem, who is dling the federal case against Re "the Scarettas were able to accom their scam because the various b conducted their audits independe each other."

Bankers say they are wary of audits because they don't want t veal confidential information about operations to competitors. But it s that instead of exposing themselve competitors, they exposed themse to possible fraud.

By Kelley Holland and Lori Bong in New York

RED FLAGS AT REVERE

LOW BIDS Revere was often the lowest bidder for money-transport jobs. Some bids were allegedly a fraction of the next-lowest bid.

CURIOUS FINANCIALS Annual financial statements with the New York State Transportation Dept. seemed questionable. Former competitors claim figures may have suggested an improbable rate of growth. And huge increases in reported operating expenses, they allege, may have disguised diversion of funds from the company.

PROBLEMATIC AUDITS Several clients of Revere audited their cash holdings only rarely. Though NatWest officials found a $6 million shortfall in a 1992 audit, the bank never undertook a subsequent audit or questioned in detail how Revere made up for missing funds.

DATA: BUSINESS WEEK

INSURANCE

'SMILE, CHEATER, YOU'RE ON CANDID CAMERA'

How high-risk car insurer Robert Plan traps ripoff artists

Hidden cameras. Surveillance vans. Undercover agents wired for sound. Burly ex-police detectives carrying guns. Not the standard tools of the trade for most insurers. But then, privately held auto insurer Robert Plan Corp. is not your standard insurance company. "This is the wild West," says the company's high-energy president, Robert M. "Bobby" Wallach. "We're in hand-to-hand combat with fraud."

Wallach's battleground: the urban auto insurance market. Many of his 550,000 policyholders, and those of the 90 insurers whose policies he services, have been turned away in the voluntary market because of their driving records or because standard carriers don't serve their area. Many go into state-supervised assigned-risk pools in Robert Plan's largest markets, New York and N Jersey, and pay the higher rates of standard carriers.

Most insurers assiduously court safest drivers. Robert Plan, thou manages to turn a profit in a ma where most insurance companies to tread, through creative and agg sive investigation of applications claims. "Certainly, they're among most successful in doing tomobile insurance in ur areas," says Richard C. H New York State Insura Dept. deputy superint dent. "It's not maybe go too far to say that Wall invented a business," a Salomon Brothers Inc. in rance analyst A. Mich Frinquelli. "The insura industry is often conside

ONE PLOY: CLOSING A GARAGE DOOR TO SEE IF A CLAIMANT CAN REOPEN IT

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passive: 'You tell us information, we put you in a category.' Robert Plan has taken a passive mechanism and made it an active one."

Robert Plan exhaustively scrutinizes applications to ensure the exact magnitude of the risk and thus the proper premium. It treats most of its applications, and its claims, as suspicious. Wallach says that 70% of applications are "misstated," with applicants fibbing about whether they drive to work, whether drivers under the age of 21 use the car, where their primary residence is, and other details that could increase premiums. About 35% of application reviews result in premium increases.

Robert Plan relies on its own investigators to check out potential fibs. Applicants who say they don't drive to work may be surprised by a phone call asking what subway stop they got off at that morning. Investigators may visit applicants' homes. A company spokesman recounted how one gained entrée by announcing that he was from the New York State Lottery. The applicant admitted, contrary to his application, that underage drivers lived in the household. The result: a higher premium.

TIRE CHANGERS. Robert Plan is even more scrupulous in probing claims, so it won't have to pay any more than necessary to settle them. Investigators often engage in surveillance. To find out what a claimant looks like, the company may tell the individual to report to a specified doctor for an "independent medical exam." When the receptionist at the doctor's office calls out the person's name to come in for the exam, an investigator sitting in the waiting room gets his visual ID.

The investigator may then observe the claimant's behavior to ascertain, for instance, whether the person has really been incapacitated. One ploy is to move a garbage can or close a garage door that has just been opened to see if the claimant feels well enough to move it back. The results are usually documented with photos or videotape.

Other tactics are even more aggressive. Company investigators say one maneuver that "works well" is letting the air out of a tire to see if someone claiming a back injury feels well enough to change it. Wallach, though, says he "absolutely does not condone" this and, if it is going on, will stop it.

CEO WALLACH LASHES OUT AT CRITICS: "PEOPLE SAY WE ARE HEAVY-HANDED—THAT'S A CROCK"

Some of the company's techniques have come under fire from consumer activists. "There's no question that there's a need for more effective cost controls and antifraud efforts in the industry," says Robert Hunter of the National Insurance Consumer Organization in Washington. "On the other hand, there's a line that is hard to define about how far you go... [t]hey cross a line in sa[y]ing that everyone's a crook [u]nproven innocent, even th[ough] they're a client?" Wal[l]ach bridles at such comme[nts]. "That people say we [a]re heavy-handed—that's [a] crock. They say that [b]ecause we're doing [so] well."

PORSCHE PASSION. [I]ndeed, since 1986, [t]he dollar amount of [b]usiness that Robert [H]ank services or [u]nderwrites has gr[o]wn from $50 million [to] about $800 mill[ion]. Revenues increa[se] 50%, to $340 mi[l]lion in 1993, and, s[ay] Wallach, they [w]ill hit $500 mil[l]ion next year.

Wallach, a[n] ex-stints as a financial [pro]-products development specialist, joi[ned] the company in 1989 to help contin[ue] that growth. He solicited a $30 mil[l]ion investment by insurance powerhou[se] American International Group I[nc.], which now owns a 23% stake in Rob[ert] Plan. A public offering is expected n[ext] year. AIG Chairman Maurice R. Gre[en]berg, though, is a bit concerned by [the] company's rapid growth. Wallach, s[ays] Greenberg, is "creative and can do so[me] things better than the standard com[pa]nies can do on their own." But, he c[au]tions, the company "shouldn't grow [so] quickly.... You can get indigestion [by] expanding before you get stability."

Wallach's intensity carries over i[nto] his personal life. He approaches eve[ry]thing with great passion, be it [h]is cars (he owns a Porsche turbo[,] Ferrari, an Aston Martin convert[i]ble, three Mercedes, "and a L[a]us, to drive when everything [el]se breaks down"), championing inn[er]-city youth sports, or working w[ith] the Diabetes Institute Foundat[ion] in Virginia Beach, Va. (A daughter is diabetic.) Wallach's colorful spee[ch] is renowned in the industry. He w[as] upset recently when a comment [he] made on TV about dropping a "th[e]monuclear bomb" on organized fra[ud] sounded like it was aimed at ind[i]vidual policyholders.

Individual policyholders should[n't] rest easy, though. They may [e]scape the bomb. But if they try [to] put one over on Robert Pla[n] they're still likely to end up w[ith] some financial bruises.

By Suzanne Woolley in New Yo[rk]

PLUCKING PROFITS FROM BAD RISKS

TARGETS DRIVERS IN TOUGH MARKETS With few competitors, company can charge premium rates to client companies and policyholders.

INTENSELY SCRUTINIZES APPLICATIONS Checks may include a visit to someone's home or cleverly framed questions over the phone. For instance, applicants who claim they don't drive to work are asked what subway or bus they use.

USES STAFF INVESTIGATORS Special investigative unit, which includes many ex-police detectives, may tail claimants, record their actions with photos or videotape from surveillance vans.

HELPS PROSECUTE FRAUD Company turns over evidence to law enforcement officials. Publicity deters lawyers, doctors, and body shops from helping claimants cheat company and clients.

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BY GENE G. MARCIAL

SPELLING ENTERTAINMENT: STAY TUNED

A number of Street pros like what's currently playing at Spelling Entertainment Group: Buyout Fever. "This stock is behaving like a company whose shares are being accumulated for a likely buyout scene," explains one arbitrageur at a major New York investment bank. He thinks Spelling will be taken over by yearend. The company, which produces television shows and motion picture films, is now trying to develop cable networks worldwide.

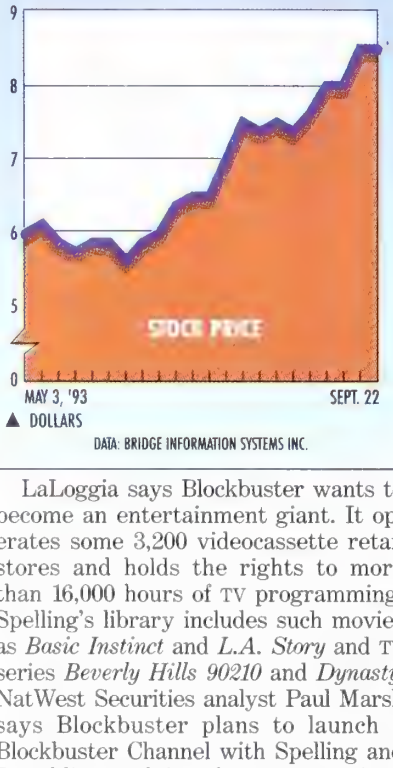
Investment adviser Charles LaLoggia is betting that Blockbuster Entertainment, which already owns 63.5% of Spelling, will soon snap up the remaining shares. LaLoggia figures that Spelling, which agreed on Sept. 13 to acquire Republic Pictures, is now worth 15 a share in such a deal. Blockbuster owns 33% of Republic, a producer of TV programs for the home-video and syndication market. Spelling stock was a loser for all of 1992 and up until July of this year. Since then, it has been on the rise, climbing to 8½ a share on Sept. 22 from around 5½ in early June.

The current frenzy among cable-TV and media companies to acquire producers of movies and made-for-TV films, as highlighted by the raging takeover battle for Paramount Communications, has refocused attention on companies such as Spelling, explains LaLoggia, editor and publisher of *Special Situation Report* in Rochester, N.Y.

He notes that Blockbuster Chairman H. Wayne Huizenga is using the right strategy in pursuing Spelling. Huizenga first acquired a block of 24.5 million Spelling shares last April, boosting Blockbuster's stake to 54%. Blockbuster continued to buy shares thereafter, which assured Huizenga of control. It also allowed Blockbuster to build its stake with little worry about a rival bid.

THE REAL DYNASTY. Spelling is more attractive and valuable to Blockbuster now because of its merger with Republic, says LaLoggia. Acquiring Spelling would eliminate the expense and trouble of operating another publicly held company. A Blockbuster spokesman says the company is satisfied with its current stake in Spelling.

THE BRIGHTENING PICTURE AT SPELLING



DATA: BRIDGE INFORMATION SYSTEMS INC.

LaLoggia says Blockbuster wants to become an entertainment giant. It operates some 3,200 videocassette retail stores and holds the rights to more than 16,000 hours of TV programming. Spelling's library includes such movies as *Basic Instinct* and *L.A. Story* and TV series *Beverly Hills 90210* and *Dynasty.* NatWest Securities analyst Paul Marsh says Blockbuster plans to launch a Blockbuster Channel with Spelling and Republic supplying the programming.

A STOCK THAT'S IN THE AIR

A virtually unknown company, Geotek Industries is turning out to be one of the market's big surprises this year. Its market cap has boomed from $25 million a year ago to a stunning $390 million, as its stock has zoomed from 2 a share in mid-1992 to 8¾ by Sept. 22. This Ramsey (N.J.) wireless telecommunications company, which recently acquired the only provider of specialty mobile radio services in Britain, has yet to make money. Revenues last year fell to $27.2 million from 1991's $36.8 million.

So what's Geotek's big appeal? The company promises to commercialize one of Israel's military technologies. In a joint venture with the Israeli defense research and manufacturing agency Rafael Armament Development Authority, Geotek aims to use the Israeli military's "frequency hopping system" in specialized mobile radio communications. Transportation and courier companies would utilize this system.

This advanced digital mobile radio technology has enabled the Israeli military to make phone conversation[s] under the toughest conditions, expl[ains] Geotek President and CEO Yaro[n] tan. He notes that the technology provided reliability and security t[o] rael's military phone system.

Geotek will make full use of [its] underutilized "specialized mobile r[adio] frequencies used by taxi operators courier companies, says Eitan. Ge already owns a significant numbe radio frequencies in the U.S. to o ate mobile radio systems, which company hopes to provide to cor nies that have wide sales network

Analyst Sewall Hodges at Arn & S. Bleichroeder, a New York inv ment firm, sees revenues jumpin $65 million in 1993 and to $80 millio 1994. Earnings, however, aren't exp ed until 1995. Even so, Hodges thi the stock is undervalued and expec to hit 20 by mid-1995. Some big U investors have bought in, including Associates, which owns a 5% stake

A BRAND NEW BAG FOR A PACKAGER?

A lot of the takeover action th days is centered on the ent tainment industry. But now prosaic packaging arena is starting perk up with some takeover deals. far the pros are eyeballing specia packagers such as Gibraltar Pack ing Group. This Charlotte (N.C.) signer and maker of customized pa aging products, including fold cartons, specialty laminated boxes, a tubular paperboard packaging, has s its stock rise to 9¾ from 5½ in Mar

One New York money manag notes that Engraph, a specialty pack er, was recently acquired by Son Products for $300 million. He believ Gibraltar is likely to be the next t get. Based on that acquisition, sa this pro, Gibraltar is worth twice current price.

Analyst Lee Wilder at Robins Humphrey in Atlanta agrees that braltar, whose sales have doubled $51 million last year from $25 million 1991, deserves a higher valuation ev without the allure of a takeover. T company's two recent acquisitions, s figures, will boost revenues in the ye ending June 30, 1994, to $90 milli "Earnings momentum is firming, a solid earnings growth is probable 1994," says Wilder. She now believ that her earnings estimates of 80¢ share in fiscal 1994 and $1.05 in 19 are "conservative."

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TELECOMMUNICATIONS

PLUGGED INTO THE WIRELESS WORLD

Ericsson cashes in on the cellular market

Lars Ramqvist learned the valuable lesson from his father, a mining foreman, that hard work pays off. Now, he's enjoying some of the rewards. Last summer, after three grueling years as president of L. M. Ericsson, the Swedish telecommunications equipment maker, Ramqvist cashed in about $2 million in company stock to buy a private hunting reserve near the Baltic Sea. From his new digs in a 16th century chateau, he can roam the 1,500 acres south of Stockholm stalking wild boar, moose, and other game.

The estate is a reward for taking the heat of the past few years. After watching profits nose-dive since 1990, Ramqvist turned Ericsson around this year and made it one of the hottest players in the sizzling telecommunications game. Its star performer: cellular mobile-phone networks. Ericsson has long controlled a leading 40% of the world market for traditional analog cellular transmission equipment, ahead of Motorola Inc. and American Telephone & Telegraph Co. Now, it has taken an even stronger lead—as much as 60%—in the surging market for digital cellular gear. Led by a 75% spurt in cellular sales in the year's first half, Ericsson's profits will more than double this year, to $228 million, on a 28% jump in sales, to $7.5 billion, predicts Merrill Lynch & Co. analyst Neil Barton. And its stock price has more than doubled since January, to a record high of 51.

"SALAD DAYS." Ramqvist is banking on an increasingly mobile future. This year, for the first time, cellular will account for more of the company's sales than wire-based public phone network equipment—Ericsson's core since its founding in 1876. Now, Ramqvist hopes to parlay that mobile strength into every flavor of emerging wireless communications, from cordless office phones to the new "personal communications systems." He's also positioning Ericsson to be in the middle of plans by phone-network operators over the coming years to combine mobile and fixed systems so callers can dial and be reached anywhere using a single personal phone number. Cellular alone "is not the end of the strategy," Ramqvist says. "It's now, during the salad days, that we must start to work."

In fact, Ericsson faces a bundle of challenges. The new digital mobile market has attracted twice as many big suppliers as the half-dozen hawking analog systems. Ericsson is also likely to lose its largest mobile customer, McCaw Cellular Communications Inc., to AT&T, which has agreed to buy McCaw.

At the same time, price war[s] are slashing profit margins in Ericsson's [public]-network phone-switch business, the company's cash cow. That's especially painful in the savage U. S. market, where analysts estimate it lost $50 million last year on traditional phone switches, though it made a profit overall. Ericsson has also lost share recently in countries such as Mexico and Spain. As a result, profits, though rebounding, will not surpass the company's pre-tax peak of [$]1 billion before 1995, predicts James Capel & Co. analyst [Jeffrey] Coleman.

Hong Kong c[ity] Ericsson [sig]n the us[e] mobile pho[ne] quintupli[ng] by the ye[ar] 200[0]

Still, the focus on fast-growing [mo]bile looks smart in light of intense c[om]petition in the traditional wired-pho[ne] switch market. The cellular comeb[ack] has even put to rest years of speculat[ion] that Ericsson would be forced to [get] out because it couldn't compete w[ith] well-heeled rivals that are more t[han] twice its size. "Ericsson has taug[ht] everyone a lesson about staying resp[on]sive in a liberalizing market," Colem[an] says. Its nimbleness, he adds, co[uld] prove more critical than deep pockets [as] privatization and deregulation arou[nd] the world put phone-system custom[ers] up for grabs.

Ramqvist's agility was put to the t[est] soon after he took the helm in 19[90]

growth of both public network
s and analog cellular systems be-
peter out—just after he had per-
directors to swallow a massive
dget hike for research and devel-
over two years, to $1 billion an-
Ramqvist, 54, still shudders when
ills an investors' meeting in No-
r, 1991, only a week after his
customer, Telefónica de España,
ctedly slashed its orders by 80%.
s the darkest moment of my ca-
ie says. Along with crashing prof-
icsson's stock price collapsed 70%,
barely more than it was spending
are on R&D.

SY PART. But Ramqvist ignored
—some from his own staff—to cut
o bolster profits. Had he taken
ay out, says Chief Financial Offi-
rl Wilhelm Ros, "we'd be out of
ss by the mid-Nineties." Instead,
ist decided to slash the number of
es by half, to 30, by 1995. He also
ified cost-sharing ventures with
artners as Texas Instruments for
Hewlett-Packard for network soft-
and General Electric for market-
obile gear in the U. S. So far,
on has cut overhead by $300 mil-
d jobs by 11%, to 64,000.

t was the easy part. To keep Er-
's global lead in mobile communica-
researchers had to develop new
l systems to three different stan-
—for Europe, the U. S., and Ja-
at once. Any one was an order of
itude more complex than an analog
m. But the European standard,
Groupe Speciale Mobile (GSM), was
veloper's nightmare, as technical
fications changed right up to the
1991, startup deadline agreed to
uropean network operators. To
the crunch, Ericsson ran research,
facturing, and service operations
allel for the first time. Researchers
est results 24 hours a day over six
ns to a lab dubbed the War Room,
Stockholm. In turn, it routed design
es to production and installation
around Europe.

the ground in Germany,
ied technicians installed
reds of prototype radio
stations and switches to
the deadline for Manne-
Mobilfunk, Ericsson's
important GSM customer.
had to be replaced
ar later with com-
ial versions—at a
of millions to Erics-
"Ramqvist took a
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board member
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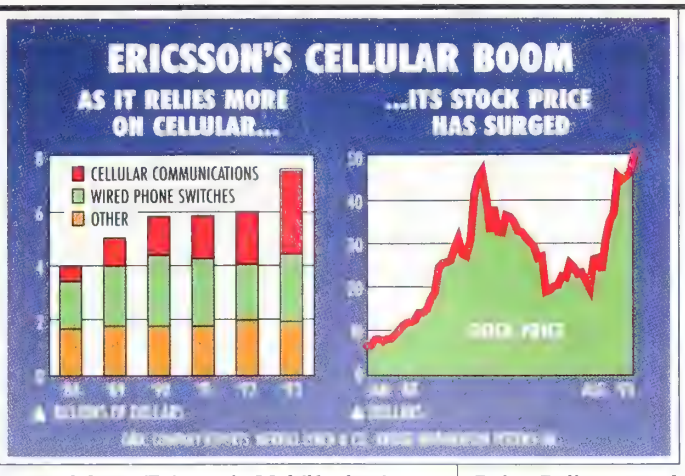
Alsthom, Philips Elec-
es, and others ran into



GSM delays, Ericsson's Mobilfunk victory has helped it win orders for 21 of 38 GSM networks ordered so far.

New mobile operators such as Mobilfunk have been Ericsson's ticket into new markets from Canada to Taiwan. Most important, a $400 million order from upstart Japan Telecom broke the lock on Japan's analog market shared by NEC, Fujitsu, and Motorola. As a result, Ericsson is the only supplier shipping complete digital systems to the world's top three markets.

Ericsson has proved a wily competitor in mobile-phone handsets, too. Last year, it stunned Motorola and Finland's Nokia by introducing a 12-ounce GSM pocket model—a third lighter than the best from either of those market leaders. Then, this summer, it slashed prices by 25%. Ramqvist says mobile-phone sales will double this year, to $650 million. Dataquest Inc. analyst Dean Eyers expects Ericsson to move up three notches this year, to third place in global market share for cellular phones.

For an encore, Ramqvist is counting on taking the lead in the emerging market for personal communication systems. PCS, using low-power transmitters and cheap pocket phones, promises to bring wireless calling to the masses—and quintuple the world's current 22 million mobile subscribers by the turn of the century, Ericsson believes. It took an early lead by snaring the contract for the world's first PCS network, a London system launched this summer. But Nokia is close on its tail, with two PCS wins in Germany and Britain.

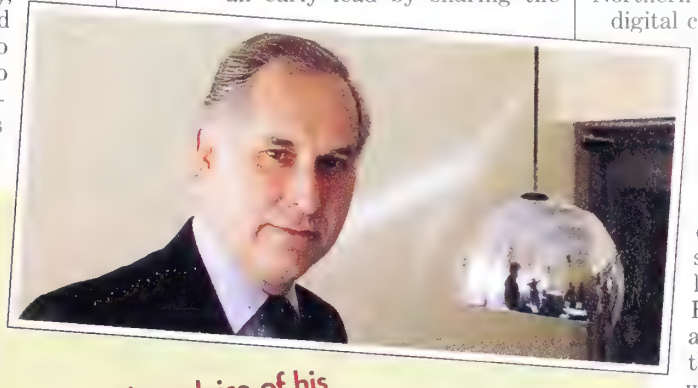
More than a sequel to cellular, however, PCS is critical to Ericsson's strategy in public networks. As fixed-network operators such as the U. S. Baby Bells expand their wireless presence through PCS, Ericsson aims to gain an edge by integrating fixed and mobile features on the same switch at lower cost. It's no surprise that the first combo products will roll out next year in the U. S., where fourth-ranked Ericsson has been bloodied in price wars over standard switches with AT&T, Northern Telecom, and Siemens.

That won't be Ericsson's only fight in the U. S. As mobile operators go digital, it so far has snapped up 10 adopters—including McCaw franchises in New York and Dallas—of an early digital standard called TDMA, for time-division multiple access. But many other cellular operators are holding out until 1995 for a rival digital standard backed by Motorola. If the Motorola camp prevails, Ericsson could lose its grip on its 30% U. S. mobile market share. It would likely switch to the new standard, called code division multiple access, or CDMA, if pushed. The problem then, warns Craig Farrill, technology vice-president at PacTel Corp., is that "they're not going to be a leader."

MIX MASTERS? For now, booming sales in such markets as Japan and China allay potential worries in the U. S. "Ericsson is on a roll because mobile is on a roll," says Jozef Cornu, executive vice-president of Alcatel. "But how long can that last?" Indeed, market researchers at Northern Business Information predict digital cellular growth will plateau by 1996.

But Ramqvist has a plan. By then, he expects feisty Ericsson to move into high gear on new multimedia switches, which can handle a mixture of voice, video, and data, and high-speed transmission systems, where it has lagged behind in the past. If Ericsson proves as agile there as in mobile, Ramqvist may think one day about adding a wing onto that Baltic retreat.

By Jonathan B. Levine in Stockholm, with bureau reports



Ignoring the advice of his own staff, Ramqvist refused to cut R&D

SUPERCOMPUTERS

CEO CARLSON: BETTING THE T3D WILL EXPAND CRAY'S MARKET

CRAY EATS CROW

It, too, goes to microprocessors

With regularity, Cray Research Inc. used to pooh-pooh the idea of stringing hundreds of relatively cheap, standard microprocessors together to create powerful supercomputers. This was the company, after all, that had practically invented the traditional supercomputer based on a few ultrafast custom processors. But now, years after competitors first began fielding micro-based machines, Cray Research is introducing one of its own, the T3D.

Better late than never, say stock analysts. The supercomputing market leader's sales growth has been flat for years, its shares mired in the low to mid 20s and trading below book value. Amid a weak economy, cutbacks in military spending, and the maturing of Cray's traditional product line, the newfangled T3D may be the company's best chance for growth. The market's focus is shifting rapidly to the machines, known as massively parallel processors (MPPs), which more than a dozen hungry competitors, including IBM, now sell. That is reducing Cray's traditional "vector" supercomputers to mainly a replacement market. Says Goldman, Sachs & Co. analyst Barry Willman: "Cray Research is at a crossroads."

There's no need to tell John F. Carlson, who last January succeeded longtime Chairman and Chief Executive John A. Rollwagen, who left in hopes of joining the Commerce Dept. Carlson, the company's former finance chief, is currently seeking board approval for a new strategic plan, which he declines to discuss. Robert H. Ewald, executive vice-president, meanwhile, has realigned the sales organization—in part, he wrote in a memo to employees, to "create more enthusiasm for ourselves."

The first order of business will be working through the issues raised by the T3D, slated for unveiling in Washington, D.C., on Sept. 27. Will it sell well enough to boost overall revenues and earnings? Or will it just cannibali[ze] orders for traditional Cray hardware? T3D must be linked with a tradi[tional] Cray supercomputer, which effec[tively] limits sales to the company's ins[talled] base. "At its best, the [T3D] will [only] serve market share," says supercom[puter] market analyst Gary Smaby, he[ad] the Smaby Group.

"SIDEWAYS" STEP. In fact, the m[arket] for Cray's traditional systems, s[elling] for up to $30 million apiece, is al[ready] saturated. Efforts to broaden be[yond] Cray's loyal following of scientists [and] engineers, especially by branching [into] commercial markets such as fin[ance] have fizzled. An attempt to seed [new] customers with lower cost "minis[uper]computers" also fell flat. Cray Rese[arch] sold just 44 of its $250,000 and u[p] minisupers in the first half of 199[3], this year, only 9. An even lower-p[riced] system, the Superdragon, plugs into [the] works of engineering workstations [but] it's not likely to cause more than a[ny] in sales and earnings soon.

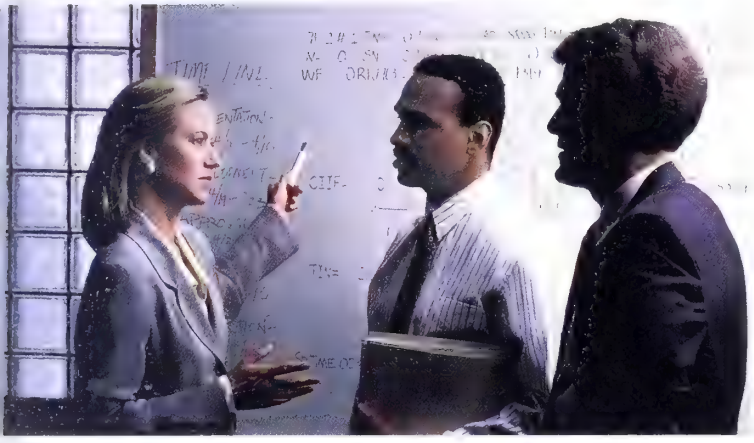
So all eyes are on the T3D. Com[pany] executives believe their MPP entry will outperform rival offerings from MPP [leaders] Intel, Thinking Machines, and n[CUBE]. It uses Digital Equipment Corp.'s sp[eedy] new Alpha microprocessor. And by [using] liquid to cool them, Cray can cra[m] many as 2,048 of those chips tightly [to]gether and significantly speed comm[uni]cations among them. Rival designs [cool] their chips with air, which is [much] cheaper. Still, Carlson says becau[se] is using cooling technology develo[ped] for earlier products, Cray is able to [price] the T3D quite competitively—anal[ysts] figure about $8 million for a 256-pro[ces]sor model, for example. And the co[mpa]ny also has plans for a cheaper, sma[ller] air-cooled model.

Rivals scoff at this approach. Dav[id] Douglas, head of hardware develop[ment] at Thinking Machines Corp., calls [it a] big step sideways." Henry Burkh[ardt] III, CEO at MPP maker Kendall Sq[uare] Research Corp., calls the T3D "dis[ap]pointing" because it uses "20-year[-old] technologies." And Ed Masi, presid[ent] Intel Supercomputers Systems Div., a former Cray Research executive, [says] ons the cost of liquid cooling will [eat] into profits: "I don't think they can [make] money on it matching my price."

In the recent past, Cray Resear[ch's] big worry was competition from Ja[pan]. Today, though, as with so many es[tab]lished computer makers trying to [cope] with the microprocessor revolution, [the] main struggle seems to be with its[elf]—its old self, the one that was so secu[re] could look down on upstart technolo[gies].

By Russell Mitchell in San Franc[isco] with Gary McWilliams in Boston

Our ideas are helping power an energy plant.



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SURGEON WHOSE ANDS NEVER SHAKE

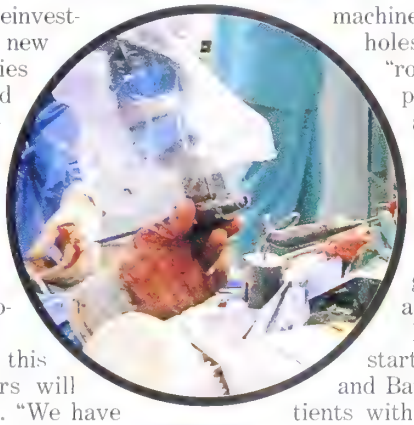
ts move from the factory floor to the operating room

e automatic drill attached to a ıechanical arm bores a precise hannel down an uneven cylinder. ındard industrial technology, com- ace from toy factories in Taiwan to ne shops in Toledo. But on this . Sacramento, this robot is doing hing new: Surrounded by doctors echnicians, it's burrowing down a , the thighbone of a human being. ots are marching from factories perating rooms, and why not? follow orders to a tee. They don't or sneeze, and they're unper- l by the sight of blood. Most im- ıt, they're masters of exactitude. man can't make a precise adjust- of 2.8 mm," says Russell Taylor, ger of robotics and augmentation rch at IBM. "A robot can."

ILS. Machines such as the thigh- ng Robodoc, for which the Food ıg Administration is about to okay l round of tests, will provide more a steady grip on a scalpel. In labs Palo Alto to Paris, engineers and ons are linking robots to computer stations and imaging equipment. these technologies, many of them me-downs from the military, re- hers can see inside the body and e computer models of it. This lets a eon, working with a computer e, bore holes for hip replacements, a brain tumor more accurately radiation, or operate on fetus- sionaries see the day when rs sitting at a comput- ll do robotic surgery a world away.

That's the kind of talk that brings startups out of the woodwork. When the Pentagon's Advanced Research Projects Agency offered grants earlier this year under the Clinton Administration's Technology Reinvestment Program, ARPA's new health-care technologies division was flooded with proposals for surgical robots. General Electric Co. and IBM are in the chase, too. And many surgeons, warming to the idea of robots as assistants, are jostling to test prototypes.

Before robots blaze this dazzling trail, doctors will have to calm patients. "We have to get people away from the notion that this is an R2D2 machine that goes nuts," says Bela Musits, president of Integrated Surgical Systems Inc. (ISS), the Sacramento maker of Robodoc. Just as important, Western societies have to decide how many such machines they can afford. "We'll have to perform real cost-benefit analyses," says Anthony M. DiGioia, director of orthopedic research at Shadyside Hospital in Pittsburgh, which has bought a Robodoc.



AT WORK: ROBODOC, WHICH WAS INVENTED BY TWO SURGEONS, COSTS $500,000

Meantime, it makes sense that robots start at the hip. That surgery is among the most primitive, with the doctor sawing and hammering at a patient's leg and digging a tunnel down the femur to anchor the implant. Surgeons use cement, so the fit isn't crucial. But the cement eventually breaks down, forcing many patients to get replacements in 10 or 15 years. If the operation can be done without cement, the bone will graft itself onto the implant, creating a stronger bond. That approach, though, requires pinpoint precision.

EARLY SUCCESS. This problem vexed Dr. William Bargar, a Sacramento orthopedist, and a colleague, the late Hap Paul, an orthopedic veterinarian. Bargar and Paul knew that automatic milling machines could cut precision holes. But, says Bargar, "robots are basically stupid. We were talking about a complex task." The challenge was to customize a hole for each patient. Luckily for Bargar, his father, an IBM retiree, helped get the computer giant behind ISS.

Last November, the startup unveiled Robodoc, and Bargar used it on 10 patients with apparent success: It carved tight fits, reducing the chance that the implants would ever jostle loose. Once the FDA gives its nod, doctors in five hospitals around the country will start the last stage of tests on Robodoc. Musits hopes to sell "several hundred" of the $500,000 systems by 1996 to a large world market: Some 750,000 hip replacements are done each year, one-third in the U. S.

In theory, at least, hospitals will bite in the hope that Robodoc will bring them more patients. Hip replacements now cost an average $7,432 in the U.S., says Gail Latimer, an administrator at Shadyside Hospital, and most hospi-

HERE OBOT OCTORS IELD THE NIFE

WHAT ROBOTS DO NOW...

HIP REPLACEMENTS They bore the thighbone so the hip implant can be attached

PROSTATE AND BRAIN TUMOR RADIATION Robot arms contour radiation to the shape of tumors

...AND MAY DO IN THE FUTURE

MICROSURGERY FOR EYES Surgeons will look through a microscope while guiding machines that inject anticoagulant chemicals into blood vessels, beaking up clots from veins near the retina

FETAL SURGERY Cameras will create three dimensional images of the inside of a fetus, so that doctors can perform medical procedures using robotic instruments

REMOTE SURGERY 3D imaging will let doctors miles away direct devices that do procedures

tals lose money on them. Even if doc is a success, hospitals won't to charge a premium because hea surers won't pay the difference a Robodoc might bolster a hospita utation as a leader in bone sur and attract patients for other orth procedures that do make money.

Of course, surgeons have use puters and imaging equipment for With MRI, CT scans, and ultra they've looked inside the body a tumors, sprained knees, and em But to date, they've used these j see, not act—which is why Robo such a giant step. First, techn place three pins in a patient's give the robot bearings for doi work. Then they take CT scans patient's hips and deliver them computer workstation, which de three-dimensional models of the and body structure. Using a mou surgeon selects an implant of the size and shape and maps out th gery. With its work limited to t mur, Robodoc works for about 25 utes of each 150-minute opera

Using robotics, doctors c more precisely zap tumors with radiation o operate on a fetus

Looking like a wand with a tiny ring propeller at its end, the ma slowly tunnels into the bone as th geon monitors its progress—with finger on the pause button.

Already, doctors and scientists at negie Mellon University are devel robots that can do the other half surgery, preparing the hip for the cial socket. If these tests are a suc predicts DiGioia, robots will soon h any kind of surgery where bone mu whittled or shaped, including on k ankles, and shoulders. Bargar also s place for robots in back surgery, w a precision machine could work clo the spinal cord without harming it.

Not every robot will work on b In Santa Clara, Calif., a group of neers and physicists, many of them ugees from defense industries, are ing robots for use in battling tumors and lesions. Currently, usi $4.5 million machine called the ga knife, doctors have to radiate muc the brain to battle a tumor. By cont the new machine, the Accuray 1000, a CT scan to develop a three-dimens al model of the brain. Once it kn

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where the tumor is, the machi hit it with just the right doses of tion from hundreds of angles. Dr. S. Zorub at Shadyside in Pitts calls the $2 million Accuray "th mate precision tool." Zorub, one of al surgeons who will test Accura the FDA approves, next sees robo ered radiation for pancreas, breast tate, and lung cancers.

EXPLORING. Still other ideas are ing to life in labs. At Northwester versity, researchers are developin robots that will battle blindness jecting clot-dissolving drugs into vessels in the eye. A surgeon control these devices remotely looking through a microscope. Scie in Britain, meanwhile, are worki camera-wielding micromachines th be inserted through the navel t explore a body's innards. Muc fighter pilots, who steer and ai moving their heads, helmet-wearin geons could turn their heads left, up, or down to see a patient's insi

Once the technology advances far, a doctor in San Francisco co

The promise shown by mechanical surgery is bringing startups out of the woodwork

theory don a helmet and "walk thr a body in Germany or Saudi Arab the near term, this would allow far specialists to consult with colleagu difficult cases. Eventually, scientists doctors could perform robotic sur this way. The Pentagon is sponso research in the area to develop b battlefield surgery. Progress hinge continued advances in three-dimens imaging and on learning how to age time: Even with images and mands traveling at the speed of l there can be disorienting one-se lapses between a doctor and a far robot. Still, that problem hasn't sto boosters from giving the remote p dure a name: Nintendo surgery.

Researchers who are piecing toge these new systems must keep one on the national debate over health For while the horizons for robotic gery are nearly limitless, America's ity to pay for them isn't. This may research toward machines that ca medical costs. The challenge, after a to satisfy a public that not only dem miracles, but cost-effective ones.

By Stephen Baker in Pittsb

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SUPERTOMATOES—THE OLD-FASHIONED WAY

Sun World's natural methods make it a leader

David Margueleas is ticked off. His company grows and ships millions of boxes of what he claims are America's best tomatoes, a variety called DiVine Ripe. Trouble is, a couple of genetically engineered competitors still not on the market are hogging publicity on the return of tasty tomatoes to supermarkets. "It took 12 years to develop this tomato, but all the attention is going to the science that's supposed to produce the same characteristics," says Margueleas, senior vice-president for marketing for Sun World International Inc. in Bakersfield, Calif.

Those qualities are full color and flavor, firmness, and a shelf life that lets the tomato be shipped cross-country without rotting. Calgene Inc. and DNA Plant Technology Corp. make similar claims for their gene-altered tomatoes. But they're waiting for Food & Drug Administration approval before launching them into the $3.5 billion American market. Sun World, by contrast, has sold its tomatoes since 1990—having created them with 100-year-old cross-breeding and selection techniques.

EDIBLE FOODS. Sun World is the brainchild of Margueleas' father, Chairman Howard P., who quit as president of Tenneco Inc.'s farming operations in 1975. His new company's mission, he says, "was to differentiate ourselves with flavor, attractiveness, and seasonality"—and thus sell only high-margin produce. His weapon would be patented varieties that were bought, licensed exclusively, or developed internally. Now, 60% of what Sun World grows are exclusive varieties. Most growers, by contrast, rely on public-domain products developed by universities and the Agriculture Dept.

Margueleas' strategy has produced a fast-growing, $300 million operation that has triggered changes in the $40 billion produce industry far beyond those the company's size should warrant. In 1983, Sun World introduced Le Rouge Royale, the first mild, elongated, sweet red pepper. In 1988, it launched the country's first seedless watermelon, developed more than 50 years earlier but never commercialized. That spawned a host of imitators—right down to the label, which notes that the melon's white seed pods are edible.

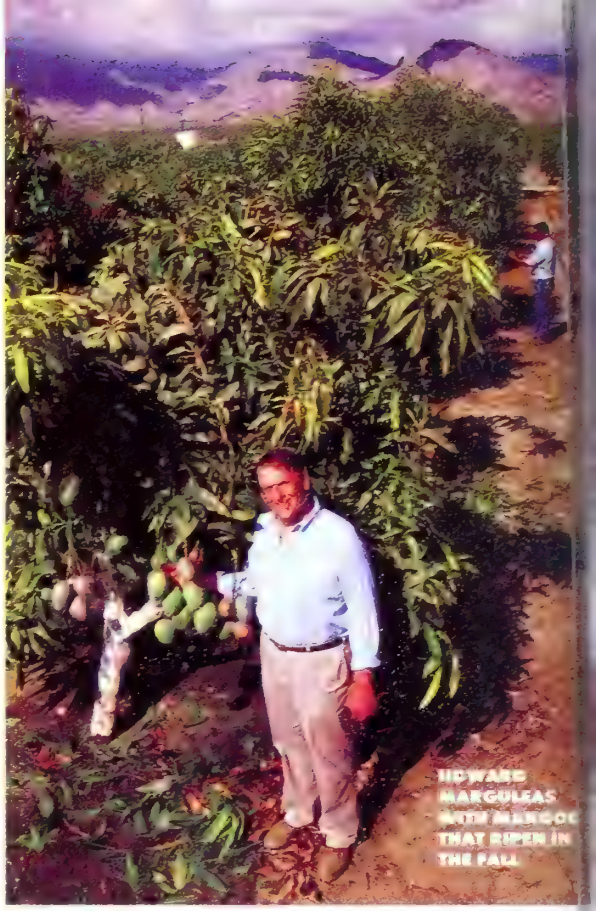
Privately held Sun World's next coup came on Sept. 20, when it started shipping a mango that ripens in late September and October, just after the huge Mexican crop and before South America's November harvest. The new mango is already fetching four times the price of mangoes in season. Next year, a baseball-size apricot will make its debut, and Sun World will test a seedless black grape. In all, the company owns 45 patented varieties and has introduced more new fruits and vegetables than any company ever, David Margueleas claims.

That may be hard to substantiate. But "they're renowned within the industry as a leader in developing new varieties to fill market niches," says Bryan Silbermann, executive vice-president of the Produce Marketing Assn. Adds Kenneth W. Green, corporate vice-president for produce at the 1,200-store Great Atlantic & Pacific Tea Co.: "The[y] stepped away from the crowd, se[t] things others just don't have."

In a sense, Sun World is the m[odel] for both Calgene and DNA Plant Tech[nol]ogy (DNAP). Both have contracted [with] key growers and will market their p[rod]ucts directly to food stores. In addi[tion] to genetic engineering, DNAP uses [ac]celerated breeding techniques and [has] commercialized 18 products. "We all h[ave] the same strategy—to bring unique p[rod]ucts to the supermarket," says Rol[f] Serenbetz, DNAP's president. "But ev[ery]one forgets that Sun World was the [pio]neer, because they don't use the s[ame] genetic-engineering approach."

That may be just as well. Envir[on]mental activists who oppose using [the] technology on food have whipped [up] such a backlash that 1,500 chefs h[ave] publicly sworn off the use of "unnatu[ral]" genetically engineered foods. And [on] Aug. 4, Chicago passed an ordinance [re]quiring retail establishments to p[ost] signs identifying any genetically en[gi]neered foods.

Biotech, ironically, isn't all that [un]natural. Calgene inserts a gene th[at] the mirror image of one that produ[ces] the enzyme polygalacturonase, or PG, which causes tomatoes to soften. T[he] so-called "antisense" gene turns off production of PG. DNAP inserts a gene



SUN WORLD'S HOTTEST PRODUCTS

Ranked in order of estimated 1993 sales

Le Rouge Royale red pepper
Elongated variety, meaty and mild

DiVine Ripe tomato
Good durability, color, and flavor

Superior Seedless green grapes
Sweet, extra crunchy, very large

Sun World Seedless watermelon
Thin rind, crisp red flesh

Star Sweet grapefruit
Extra-deep red, large size

Black Diamond plum
Large, round, red-fleshed

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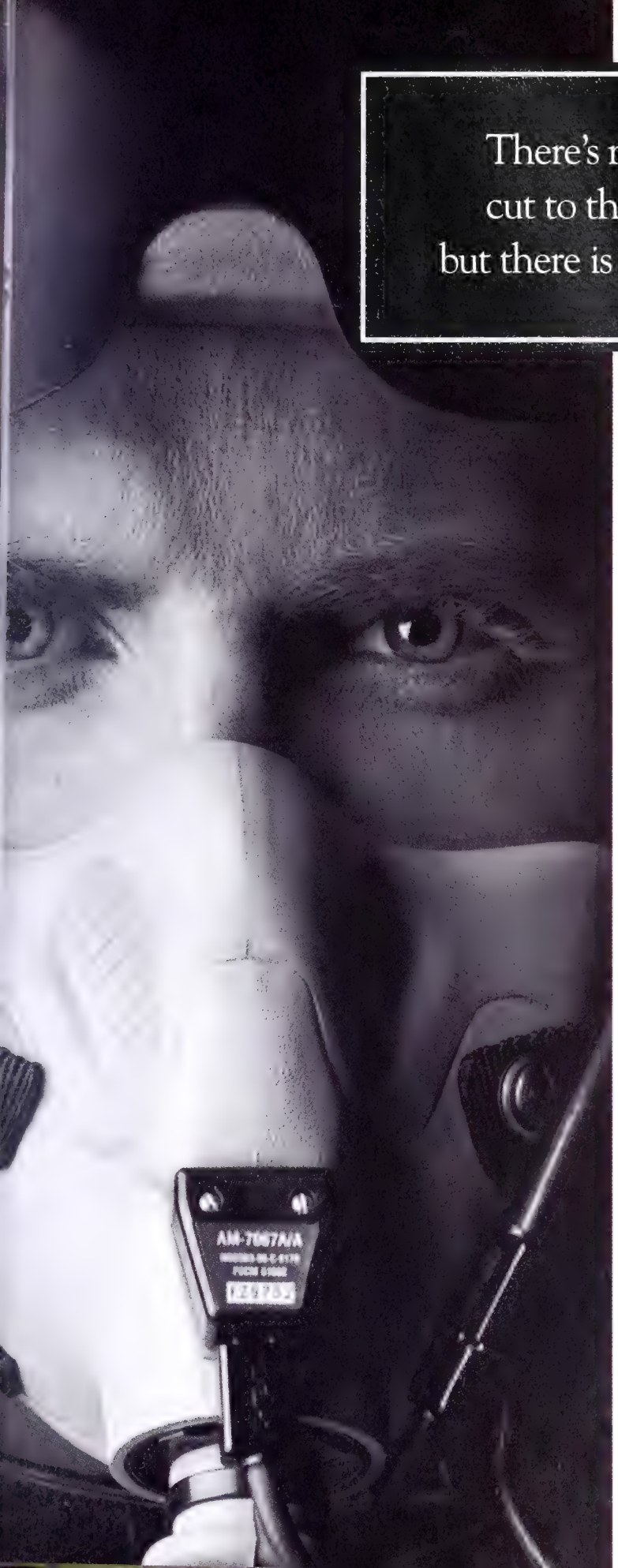

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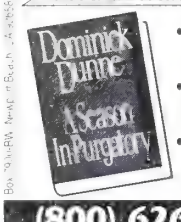

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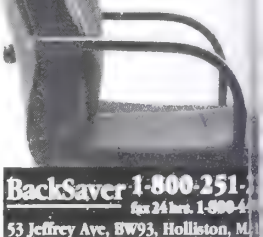

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Phone 312/337-3090 • Fax 312/337-5633

production of ethylene, a gas
d by tomatoes that turns on the
nat ripen and eventually rot the
le. Most U. S. tomatoes now are
green, then sprayed with ethy-
their destination to turn them
th companies figure that if they
e ripening process, tomatoes can
on the vine longer to develop
yet still be firm enough at har-
to withstand long shipments.

REEDING. Sun World's DiVine
me from researchers at Hebrew
sity's agriculture campus south
Aviv, who were trying to cross a
tomato that never ripens with a
eeply colored one, to get a long-
e variety. In 1983, Marguleas and
nvestors set up LSL Biotechnolo-
. in San Diego, to acquire world-
ghts for the tomato. LSL adapted
J. S. growing conditions and li-
it to Sun World exclusively.
evitalized the vine-ripened toma-
rs Robert Meyer, who owns Mey-
natoes in King City, Calif., one of
gest U. S. producers and a grow-
both Calgene and DNAP versions.

n World is sticking with eeding, even if it takes . Its mango took 10 years lapt to California's desert

ntrast, he adds, the Calgene to-
s on his vines are "average." The
em, says David W. Cain, Sun
's vice-president for R&D, is that a
er of a tomato's desirable charac-
cs, such as size, firmness, color,
eld, are controlled by many genes.
traditional breeding methods can
ulate hundreds of genes at a time,"
ys. Stephen Benoit, a vice-presi-
at Calgene, says it used conven-
techniques to develop its tomato.
e says, biotech was the only way
nipulate the target gene, which
esisted attempts by other meth-
Ie also insists that the Calgene to-
is testing well with consumers.
n World is sticking with breeding,
f it takes time. Its mango took 10
to adapt to the irrigated desert of
rnia's Coachella Valley, where it's
n. That points up another Sun
weapon: location. Fruits that are
l in the desert out of season can
nique even if they aren't new
s. That may be a lesson for bio-
tartups: Don't forget the basics of
lture.

Larry Armstrong in Bakersfield, Calif.

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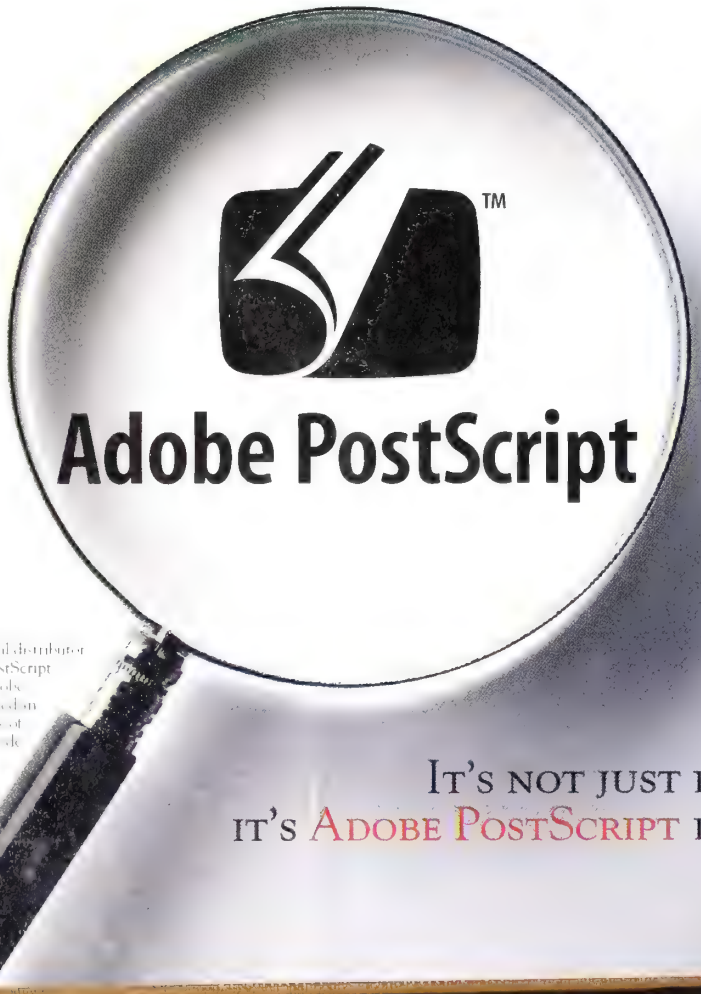

IT'S NOT JUST PRINTING,
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Adobe

RUTH COXETER

ETY CUSHION STAINED GLASS

Part of the beauty of stained glass is its fragility. But stress tends to build up at certain points in the window, where the thin glass bends inward or outward. It's no surprise, then, that earthquakes produce plenty of business for stained-glass artisans, who put the pieces back together.

Stained-glass windows may last longer with absorbers devised by a 73-year-old company in Mount , N.Y. Rohlf's Studio Inc. recently completed work on vs for the Roman Catholic Cathedral of the Madeleine in ake City. Set between the windows' steel frames and the walls are rubberlike neoprene blocks and cushioning ubes. Rohlf's has designed a similar system for a 6,000-foot stained-glass wall in the Kasugai Seibu shopping in Nagoya, Japan. It has survived three modest earth- since it was built 16 months ago.

GER BANGS HE HEAT OF THE NITROGEN

it years of tinkering with exotic carbon-60 molecules, bbed fullerenes for their resemblance to Buckminster 's geodesic domes, hasn't yet produced the commer- useful catalysts, superconductors, and superstrong plas- iat scientists initially predicted. So researchers at Japan's nal Institute of Materials & Chemical Research in Tsuku- y and Nissan Motor Co. in Tokyo kept the structure but ed to build it using different atoms.

ey recently ran supercomputer simulations that conclud- at a fullerene with 60 nitrogen atoms is plausible. The are models suggest that N60 would resemble C60's ure without its stability. Nitrogen gas would probably to be frozen and compressed, then blasted with a power- ser. The resulting clusters—assuming any appeared— be highly volatile. Exposed to heat, they'd revert in- y to gas, releasing enormous energy in the process. might lead to commercially useful explosives or rocket fu- ays Takehiro Matsunaga, the institute's chief researcher. mulations show that N60 could pack 10% greater lift than quid oxygen used to launch today's rockets.

AY FILM THAT DS LIGHT ON BABY BONES

ult X-ray imaging systems don't do justice to young atients, whose body structures are smaller and softer. better X-rays, doctors could detect much earlier such tions in premature infants as respiratory distress syn- e, the inability of the lungs to transmit oxygen to the . To help radiologists take clear pictures of those tiny s and lungs, Eastman Kodak Co. has invented a new film m called the InSight Pediatric Imaging System.

The key is using a layer of high-absorption phosphors that convert 80% of incoming X-rays to visible light, compared with 40% conversion for conventional X-ray film. With more light reaching the film, it becomes possible to use a low-speed, fine-grain film that provides high contrast between light and dark areas. For example, radiologists can detect the edge of an infant lung pulling away from the rib cage, a warning sign of lung collapse. Forensic radiologists are also using the system to detect the tiny fractures characteristic of "shaken baby syndrome," a symptom of child abuse. Dr. David Merten, the chief of pediatric radiology at the University of North Carolina Child Medical Evaluation Center, says Kodak's imaging system provides twice the detail without increasing the radiation dose. The system has been on the market for just two months and is now being used in 16 pediatric radiology departments.

BETTER BONDING THROUGH A UKRAINIAN MICROWAVE MAKER

Makers of advanced materials, Energy Dept. weapons labs, and former Soviet scientists all could get a boost from a new kind of gyrotron, a magnetic device for generating microwaves. The gyrotron was spotted at a Ukrainian institute by USP Holdings, an Ann Arbor (Mich.) company that searches for useful Russian and Ukrainian technology. Unlike gyrotrons built by U. S. companies, the Soviet one produces a focused, laserlike beam. USP executives think the beams could bond ceramics or diamonds onto metal surfaces. That's because they can heat just the "glue," not surrounding materials, which might be damaged by the high temperatures.

To get the gyrotron ready for commercialization, one of USP's joint ventures signed a research agreement with Los Alamos National Laboratory, which brought the device up to Western safety standards. With that success in mind, staffers for Senator Pete V. Domenici (R-N. M.) are hammering out a plan to encourage the U. S. national laboratories to help commercialize technologies from the former Soviet Union.

FURNITURE MAKERS GET CLARK KENT EYES

Scientists at Virginia Polytechnic Institute are using computer vision to save trees. A system developed by Earl Kline and Richard Conners scans raw boards for defects so furniture makers can work around them—wasting less wood. Human inspectors do that now, but not as effectively.

A high-resolution color camera scans passing boards and sends an image to a computer, where color and grain are compared with preprogrammed grading data. A separate laser camera sees surface cracks down to $\frac{1}{100}$ inch. Within a year, researchers hope to add an X-ray scanner to look inside the board for knots, holes, and decay. A computer also tells the saw where to cut. Conners says the machine will cost $75,000 to $150,000, depending on how many cameras are incorporated. The U. S. Forest Service has helped fund and develop the machine in the interest of forest management.

EDITED BY AMY DUNKIN

Electronics

'SMART' ASSISTANTS?

Anyone who follows the computer industry even remotely has heard the buzz about personal digital assistants, or PDAs. Few new electronic gadgets have enjoyed as much buildup as Apple Computer's Newton MessagePad and its competitors. But much of the attention hasn't been flattering.

APPLE'S NEWTON MESSAGEPAD
Street price: About $700
PROS: Recognizes cursive and block letters
CONS: May misidentify handwritten words if they aren't on its built-in list

Most of it has focused criticism on one of the unusual features of the new devices—their ability to read handwriting. That debate has overshadowed other features that are more refined—and potentially more useful.

What, exactly, is a PDA? Basically, it's a handheld computer that acts as a pocket organizer and notepad. But unlike such organizers as Sharp's Wizard, it doesn't have a keyboard. Instead, you enter information by writing directly on the screen with a special pen. Built-in software turns your handwriting into typed text, and in some models, such as the Newton and the virtually identical Sharp Expert Pad, it even interprets what you've written. Say you jot down "dinner Tuesday with Ann." Newton converts your writing into text, then enters into its built-in calendar a 7 p.m. dinner appointment the following Tuesday with your friend. (It figures that's the hour you dine unless you tell it otherwise).

But that assumes the gadget understands what you've scribbled. That's a big if. Handwriting recognition in such a tiny device is an impressive technological achievement—a few years ago, only big, expensive computers could do it. But it's far from perfect. With Newton and the Expert Pad, both designed by Apple and manufactured by Sharp, you may end up with the wrong word entirely. The two other PDAs sampled, the Casio Z-7000 and AT&T's EO 440 make even worse mistakes, though the errors usually come up as wrong letters within a word.

Despite the iffy handwriting recognition, PDAs may appeal to salespeople, freelancers, and others with busy lives often spent on the road. These people may appreciate their sophisticated address books, to-do lists, and calendars. For those now relying on paper-based organizers, such as Filofaxes, PDAs can provide new functions, such as allowing users to search instantly for every reference to a George Smith they've ever jotted down or to locate quickly a long-lost appointment deep inside the calendar. But a laptop computer with the right software can do the same thing, and it offers a keyboard to boot for more reliable text entry.

FINGERTIP FAX. One of the PDAs, the EO, tries to do more than the others. The EO is much larger—about the length and width of a legal pad, compared with the videocassette size of the three others. That means its screen is bigger, making it more practical for composing letters. It's also the only PDA that offers a cellular-phone option. Not only can you make and receive phone calls on the road, you can send and receive faxes from the screen wirelessly. You can jot a quick message and fax it to someone without bothering to convert it into typed text. And when you receive a fax, you can mark it up with the pen and fax it back to the sender. That could be useful for editing or reviewing documents while traveling. In a test, the EO sent a fax from a speeding train.

AT&T'S EO 440
Street price: About $2,700 with cellular phone
PROS: Can fax
CONS: Bigger, heavier, and more battery-guzzling; may misread written characters

These capabilities have prompted AT&T to dub its product a personal communicator instead of a PDA. The other models have more ed communications abilit

The Newton/Sharp an sio models promise the bility to receive—but send—short text mess wirelessly via paging works. But first, you buy an extra-cost elect card, available soon, tha insert into a slot in the side. The three also ha built-in infrared commu tion system that lets wirelessly "beam" a mes or other information t other PDA by holding th vices near each other. PDAs must be of the s type, though: A Casio send to a Newton.

All the PDAs can be ho up to a telephone wall as well, via an optional dem. That allows you to and receive electronic-

iges. The EO also can and receive faxes over ne line, while Newton nly send them. (Casio ises a fax-sending fea- early next year.) All of DAs can be connected to ktop PC via a cable to fer information.

there are some major ences between the three t-size PDAs. The Casio s equipped with much applications software, as a special version of Quicken personal-finance am. After keeping tabs ur expenditures while ling, you can download ata into Quicken on your n addition, the Casio h also will be sold by and AST Research) con- software for America e. So you can connect that information and

messaging service while on the road, provided you carry a pocket modem. Still, Newton and the Expert Pad have some advantages over the Casio. They're the only PDAs that recognize cursive as well as block letters, and they also have impressive sound effects. When you rub out a mistake, for example, you get a "poof" sound, and a puff of smoke appears on the screen.

SHARP'S EXPERT PAD
Street price: About $700
A virtual twin of the Newton (both are designed by Apple and manufactured by Sharp), except for slight cosmetic differences

The EO is the only true communications device among the four. But its extra features come at a price, in dollars, battery life, and portability. While the Newton/Expert Pad and Casio weigh about a pound, the EO, with its cellular-phone attachment, checks in at about three. The Newton and Expert Pad can operate up to two weeks on four AAA batteries, and Casio claims its PDA can last months on its three AA cells. But if you use the EO's cellular phone often, you can drain the juice from its rechargeable power pack in a matter of hours. (All of the models can be plugged into a wall outlet with an adapter.)

NOT FOOLPROOF. An EO, with cellular phone, sells for about $2,700. The Newton and Sharp run about $700 without options such as a modem. That's about the same price the Casio is expected to fetch; that model is just arriving in stores.

While prices and features vary, one thing all of the PDAs share is the handwriting-recognition problem. Of course, you can correct the errors, either by scratching them out and writing the words again or by pulling up a tiny representation of a keyboard on the screen and tapping on the keys with the pen. But even erasing an error isn't foolproof. Annoyingly, the machine often mistakes your scratch-out mark for a letter or word, giving you one more thing to fix.

With practice, you can learn to modify your writing so the machine can better understand it. And the Newton/Expert Pad twins even supposedly "learn" from their errors. But even after weeks of using a Newton, it still made too many mistakes for comfortable use. There is an option: With all the PDAs, you can turn off the recognition software and the device will store your notes in your own handwriting. But if you do that, you can't use the electronic search features.

CASIO'S Z-7000
Street price: About $700
PROS: More built-in software, including Quicken and access to America Online
CONS: May misread handwritten characters

So, should you succumb to the hype and buy a PDA? The answer may lie in your feelings about new technology and your temperament. In many ways, PDAs aren't ready for prime time. Like AT&T's VideoPhone, which is a technical marvel even though it produces a fuzzy, jerky picture, PDAs are more harbingers of the future than perfected products. If you get a kick out of owning the latest gadget, a PDA makes a great, albeit costly, conversation piece. It could also do some useful things, provided you have the patience to wrestle with it. But for most people, it would be best to wait for the next generation. *Bart Ziegler*

Insurance

CAN MANAGED CARE CUT YOUR CAR POLICY?

Consumers are getting used to the idea that by seeing doctors in managed-care networks, they can cut health-insurance costs. Now, health-maintenance and preferred-provider organizations may help them save on auto insurance, too.

Following the lead of health insurers, some property-casualty companies are lowering car premiums for drivers who select an HMO or PPO to provide medical care if they are injured in an accident. Progressive and GEICO are in the forefront, but State Farm, Allstate, and Prudential are right behind them.

TRAVELING. The arrangement is already prevalent in Colorado and Florida, where laws passed in 1991 allow insurers to designate doctor networks to treat auto injuries. Progressive is unveiling an auto PPO policy in Delaware and considers Minnesota, Utah, and Washington prime targets. GEICO is examining Connecticut, Georgia, California, Maryland, and Virginia.

Here's how it works in Florida: Progressive customers who agree to use the physician network save about 10% of their auto premium when they purchase a policy with a $250 personal injury deductible. To ensure compliance, Progressive waives the deductible if customers are injured and go to a network provider. It also reimburses 90% of their medical expenses rather than the 80% required by law. If you belong to an HMO or PPO through your health plan at work, you would still have to use the insurer's network to treat auto injuries in order to get the premium discount.

In an emergency, insurers waive the managed-care requirements until the patient is well enough to transfe network provider. State says more than 35% 700,000 Colorado drivers picked the managed-care In July, it upped its pre discount there to 23%. I sumers use an out-of-ne doctor or hospital in a emergency, a $1,000 de ible kicks in.

CRITICAL MASS. The dow is the same as in healt surance. HMOs and PPOs likely to be offered in areas, because the pro network isn't there. And cyholders sacrifice freed choice in picking a doct

Even in states where aged care isn't yet us auto coverage, consu might get a break. New sey lets drivers use thei ployer health plan inste the auto policy's cove shaving drivers' person jury premiums by about

So if you want to cut insurance costs, ask abou medical side of your poli may offer a way to save out raising your deductib skimping on your coll coverage. *Chris K*

Smart Money

HOW TAX CHANGES MAY CHANGE YOUR PENSION PLANS

More highly paid employees may lose pension benefits next year, when the new tax law further limits how much money employers may contribute to qualified retirement plans. Now, the percent of salary an employer kicks in will be based on a maximum of $150,000, down from a $235,000 cap. So if you're making $200,000 and your company was giving 4% a year to your plan, you were getting $8,000. Now, 4% will be taken from $150,000 instead, for a maximum contribution of $6,000. Your company can't increase the percentage for you without raising it for all employees.

If you make more than $150,000, see if your company offers a supplemental executive retirement plan (SERP), which employers adopt to make up for lost pension funds. Labor law limits eligibility to a "select group of management or highly compensated employees," but employers interpret this loosely.

SERPs can hold unlimited funds but lack the security and tax deferral of qualified plans such as 401(k)s. They are simply agreements that the company will pay the extra money when you retire. If the employer ails, fails, or reneges, you can lose.

Several options make SERPs more secure—but all have drawbacks. You can fund a SERP using a "rabbi trust," which protects you against reneging and current taxes but not bankruptcy. A secular trust guards against reneging and bankruptcy but not current taxes. SERPs funded with annuities are the "best combination of tax advantage and security," says Steven Vernon, a Wyatt Co. consultant. An annuity grows tax-free, but you'll pay now on the initial sum. Companies often cover this tax.

Another choice is "split-dollar" life insurance, where you split the premiums with the company. You may have to repay the company's portion when you retire, but keep any tax-deferred e ings. Beware: The cash ue, often stashed in bo may yield less than an a ity in mutual funds. For tra protection, buy indem insurance, which costs to 1% of the SERP. But won't get it if insurers "t there's any likelihood th have to pay it," says Klein, a Tower & Perrins tirement planning lawye

PUT IT IN WRITING. If employer offers you a s "the first step to security well-drafted contract of actly what the company o you," says Klein. Compa may agree to pay your l fees if you must sue for SERP. "It's another pa promise," says Robert wen, a principal at bene consultant William Mer but it reduces the compa incentive to renege.

In the end, SERPs are employees' benefit, and t usually pay off. *Pam B*

SERP PROTECTIONS AT A GLANCE

	Bankruptcy	Reneging	Current taxes
ANNUITY	YES	YES	NO
RABBI TRUST	NO	YES	YES
SECULAR TRUST	YES	YES	NO
SPLIT DOLLAR INSURANCE	YES	YES	YES

DATA WYATT CO

dex to Companies

ndex gives the starting page for a story or fea- with a significant reference to a company. Most dlories are indexed under their own names. panies listed only in tables are not included.

ife 98
Air 75
Alsthom 106
ignal 34, 80
126
est 29, 98
l 96
an Express 29, 38,
an Financial 104
an International p 100
en Consulting 96
Computer 96, 124
Consultants Group 52
d & S. roeder 104
Glass 50
esearch 124
40, 106, 124

International 7
ssociates 104
lantic 26
mann 26
Entertainment ision 28
uster tainment 26, 104
ross/Blue Shield of h Carolina 56
g 86
-Myers 80

communications 56
s Brothers 50

ne 116
n 56
al Cities/ABC 26
co Pictures 28
124
/Day 38
ler 34, 36
IA 98
rp 80
ast 26, 28
nerzbank 44
aq Computer 56
utervision 40
Research 108
tive Artists 38
& Forster 56
96

ler Benz 44, 130

Dataquest 56, 106
Deutsche Bank 44
Digital Equipment 96, 108
Discovery Channel 28
DNA Plant Technology 116
Drake Beam Morin 130

E

Eastman Kodak 80, 123
Engraph 104
Ericsson (L.M.) 106

F

Fidelity Investments 29, 104
First Executive 80
Foote, Cone & Belding 38
Ford 36, 86
Forrester Research 96
Fox Broadcasting 28
Fujitsu 106

G

GE 86, 106, 111
GEICO 126
General Mills 80
Geotek Industries 104
Gibraltar Packaging 104
Glasrock Medical Services 80
GM 36, 80
Goldman Sachs 44, 108
Guardian Industries 50

H

Hartford Life 98
Hewlett-Packard 106
Humana 98

I

IBM 38, 86, 111
ICN Pharmaceuticals 7
Integrated Surgical Systems 111
Integrated Systems & Services 96
Intel 86, 108
International Data 96
iPlus+ 38

J

James Capel 106
J.P. Morgan 44

K

Kaiser Permanente 98
Kelly Associates 99
Kemper Securities 22
Kendall Square Research 108
Kidder, Peabody 75
K-Swiss 40

L

Ladenburg Thalmann 26
Laurence H. Meyer 76
Lehman Brothers 22, 29, 38, 40
Leo Burnett 38
Liberty Media 26, 28
Lloyd's of London 99
Loews 26

M

Mannesmann 106
Marine Midland Bank 99
Marion Merrell Dow 40, 80
MarkAir 75
Massachusetts Mutual 98
McCaw Cellular Communactions 106
McGraw-Hill 24, 34
Medco Containment 80
Merck 40, 80
Merrill Lynch 56
Metropolitan 98
Meyer Tomatoes 116
MGM/UA Communciations 28
Microsoft 40, 56, 86
Mitsubishi 50
MMS International 24
Mojo 38
Morgan Stanley 29, 36, 76
Morris Air 75
Motorola 106
Mutual Life Insurance 98

N

National Amusements 26
National Medical Enterprises 7
National Westminster Bank 99
NatWest Securities 104
nCube 108
NEC 106
NeXT Computer 56
Nichii 50
Nike 38
Nissan 38, 123
Nokia 106
Northern Telecom 106
Novell 40
Nynex 38

O

Occidental Petroleum 80
Oracle Health investors 80

P

PacTel 106
Paramount Communications 26, 28, 104
Pilot Pen 40
Primerica 29
Progressive 126
Prudential 98, 126
Prudential Securities 36, 56

Q

Quantum Realty Fund 29
QVC Network 26, 28

R

Reebok 38
Reno Air 75
Republic Pictures 104
Revere Armored 99
River Edge Farm 80
RJR Nabisco 86, 96
Robert Plan 100
Robinson-Humphrey 104
Rohlf's Studio 123
RSA Data Security 43

S

Salomon Brothers Asia 50, 100
Sanford C. Bernstein 29, 36
Seagram 96
S.G. Warburg 29
Sharp 124
Siemens 106
Silicon Graphics 32
Smaby Group 108
Smith Barney 29
SmithKline Beecham 86
Sonoco Products 104
Southwest Airlines 75
Southwestern Bell 26
Spelling Entertainment 104
Sports Specialties 38
State Farm 126
Sun Microsystems 32, 56
Sun World International 116

T

Tandy 124
Tele-Communications 26, 28
Texas Instruments 34, 56, 106
Thinking Machines 108
Time Warner 26
Towers Perrin 126
Travelers 29, 98
Turner Broadcasting System 26

U

Union Bank of Switzerland 44
Unisys 96
USP Holdings 123
U S West 26, 76

V

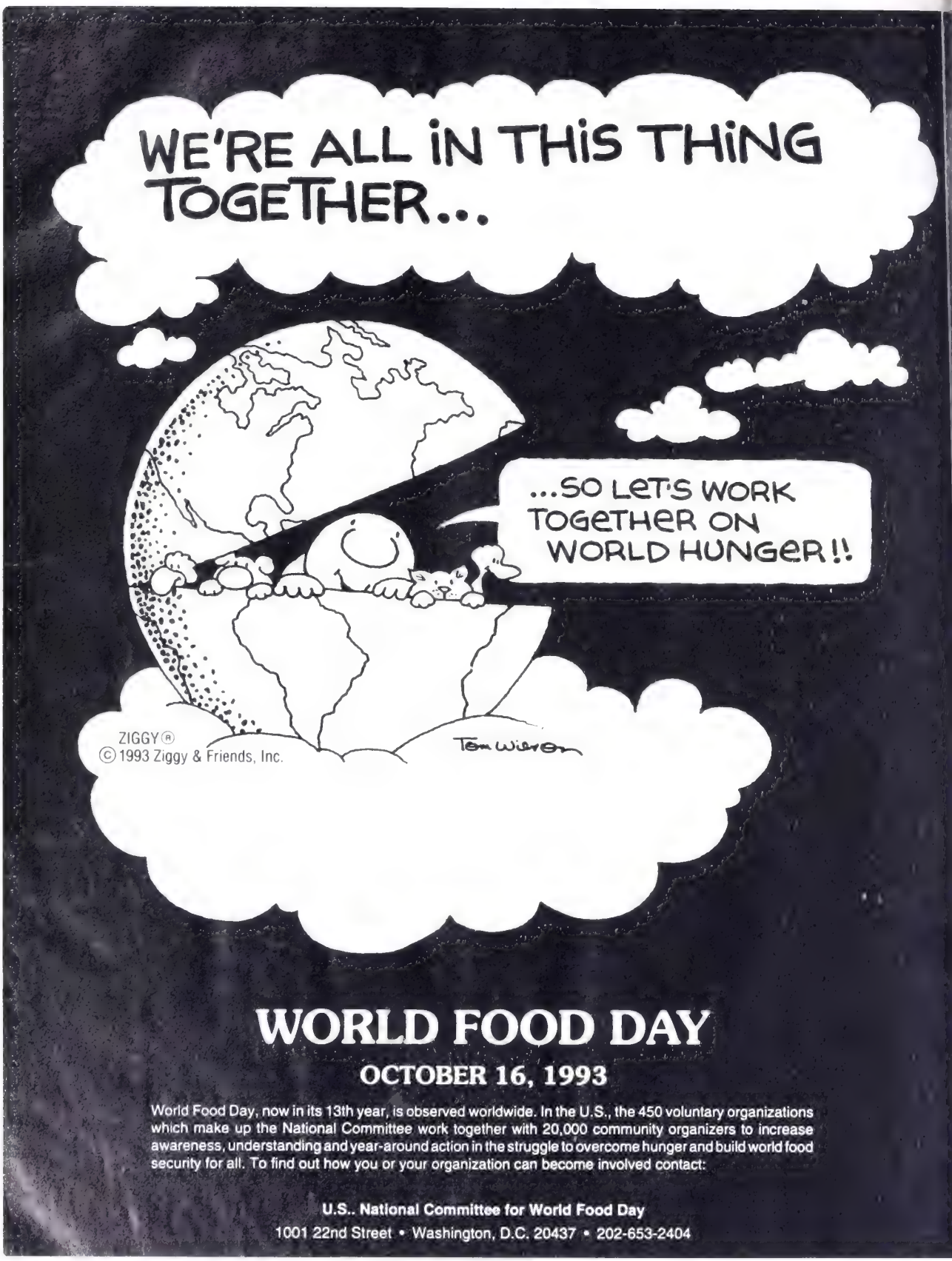
Viacom 26, 28

W

Wegmans Food Markets 56
Wyatt 126

X

Xerox 56



WORLD FOOD DAY

OCTOBER 16, 1993

World Food Day, now in its 13th year, is observed worldwide. In the U.S., the 450 voluntary organizations which make up the National Committee work together with 20,000 community organizers to increase awareness, understanding and year-around action in the struggle to overcome hunger and build world food security for all. To find out how you or your organization can become involved contact:

U.S.. National Committee for World Food Day
1001 22nd Street • Washington, D.C. 20437 • 202-653-2404

vestment Figures of the Week

TARY

took two blows to the
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Russian parliament,
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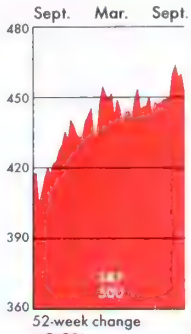
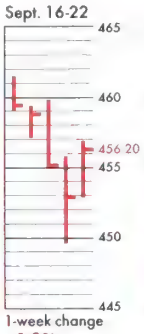
STOCKS

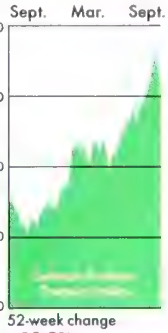


52-week change
+9.3%



1-week change
−1.2%

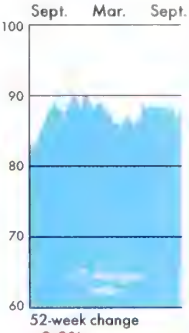
BONDS



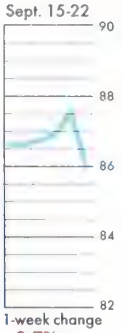
52-week change
+12.9%

1-week change
−1.0%

THE DOLLAR



52-week change
+3.2%



1-week change
−0.7%

KET ANALYSIS

CKS	Latest	% change Week	% change 52-week
ES INDUSTRIALS	3547.0	−2.4	8.2
COMPANIES (S&P MidCap Index)	172.1	0.4	18.6
MPANIES (Russell 2000)	246.5	0.5	28.2
ANIES (Russell 3000)	264.3	−0.8	12.5

N STOCKS	Latest	% change (local currency) Week	% change (local currency) 52-week
(FINANCIAL TIMES 100)	3007.5	0.6	16.5
IIKKEI INDEX)	20,174.6	−3.7	10.3
(TSE COMPOSITE)	3954.9	−0.3	16.2

FUNDAMENTALS	Latest	Week ago	Year ago
90-DAY TREASURY BILL YIELD	2.98%	3.03%	2.98%
30-YEAR TREASURY BOND YIELD	6.09%	5.98%	7.49%
S&P 500 DIVIDEND YIELD	2.76%	2.72%	2.95%
S&P 500 PRICE/EARNINGS RATIO	23.6	23.9	24.5

TECHNICAL INDICATORS	Latest	Week ago	Reading
S&P 500 26-week moving average	449.2	448.9	Positive
Stocks above 26-week moving average	57.0%	60.8%	Negative
Speculative sentiment: Put/call ratio	0.50	0.49	Positive
Insider sentiment: Vickers sell/buy ratio	2.73	2.55	Negative

JSTRY GROUPS

BRIDGE INFORMATION SYSTEMS INC.

VEEK LEADERS	% change 4-week	% change 52-week	Strongest stock in group	% change 4-week	% change 52-week	Price
TAINMENT	10.3	19.9	PARAMOUNT COMMUNICATIONS	46.7	66.5	77
INAL TELEPHONE COMPANIES	7.8	21.9	BELLSOUTH	13.4	17.7	61 3/8
CING	7.0	−3.0	CONSOLIDATED FREIGHTWAYS	18.8	17.7	16 5/8
INE TOOLS	6.9	26.8	CINCINNATI MILACRON	10.1	60.2	24 5/8
H-CARE SERVICES	6.7	−38.5	AMGEN	8.9	−43.7	38 1/8
WEEK LAGGARDS	**% change 4-week**	**% change 52-week**	**Weakest stock in group**	**% change 4-week**	**% change 52-week**	**Price**
ITAL MANAGEMENT	−13.6	9.5	NATIONAL MEDICAL ENTERPRISES	−33.0	−35.8	7 5/8
ND GAS DRILLING	−13.5	13.1	ROWAN	−19.8	1.6	8 1/8
LS	−12.4	−16.4	INCO	−16.4	−28.8	18 1/2
S	−11.8	−30.9	NIKE	−19.3	−40.7	44 7/8
INUM	−10.5	−5.1	REYNOLDS METALS	−13.4	−17.5	42 7/8

TUAL FUNDS

MORNINGSTAR INC

RS

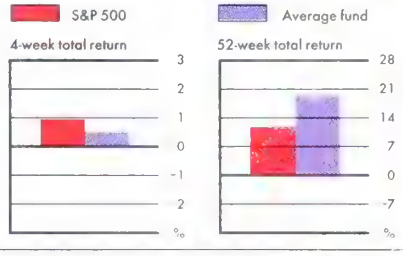
k total return	%
LLI VALUE	8.7
H BARNEY SHEARSON TELECOMM. INCOME	8.1
LETON DEVELOPING MARKETS	7.4

total return	%
IGTON STRATEGIC INVESTMENTS	99.0
GROWTH	81.8
ITY SELECT BROKERAGE & INVESTMENT	61.5

LAGGARDS

Four-week total return	%
EXCEL MIDAS GOLD SHARES	−14.4
VAN ECK GOLD/RESOURCES	−13.2
PIONEER GOLD SHARES	−12.8

52-week total return	%
MONITREND GOLD	−16.6
FIDELITY SELECT MEDICAL DELIVERY	−16.2
INVESCO STRATEGIC HEALTH SCIENCES	−15.8



ATIVE PORTFOLIOS

DRI/McGRAW-HILL

amounts
ent the present
f $10,000
d one year ago
portfolio

ages indicate
y total returns

Foreign stocks	Treasury bonds	U.S. stocks	Money market fund	Gold
$13,471	$12,190	$11,169	$10,224	$10,216
−1.13%	−1.75%	−1.51%	+0.04%	+3.22%

on this page are as of market close Wednesday, Sept 22, 1993, unless otherwise indicated
groups include S&P 500 companies only; performance and share prices are as of market close

Sept 21 Mutual fund returns are as of Sept 17 Relative portfolios are valued as of Sept 21 A more detailed explanation of this page is available on request

HEALTH REFORM: LET THE BARGAINING BEGIN

President Clinton's speech on health-care reform has set the stage for one of the most complex debates in the nation's history. That major reform is needed is unquestionable. Unless it is checked, health-care spending will consume 20% of gross national product in a few years. That the action is popular is unquestionable. Polls show that an overwhelming majority of Americans support change. That the effort is courageous is also unquestionable. No policy issue is as rife with pitfalls.

But the plan as presented to Congress is flawed. The Administration is simply asserting that it can save enough money from squeezing Medicare and Medicaid to pay for insuring the one-seventh of the population that lacks coverage at any one time. It assumes that there is a huge amount of bureaucratic fat that can be isolated, "monetized," and transferred. As New York's Democratic Senator Daniel P. Moynihan has said, this is sheer "fantasy."

Big questions also remain about retaining individual choice of doctors, government controls, and employer mandates. All will be loudly discussed in the halls of Congress. Indeed, the debate is itself a social good. Americans have been in denial on the issue. For the first time, they are being confronted with the true costs of their own health care.

Fortunately, the reform package presented by the President is the beginning, not the end, of a political process that can produce a better health-care system. If the final plan emphasizes competition and choice rather than controls, if it phases in universal coverage over time, and if it sticks to a basic benefits package, it can succeed in ensuring decent health care for all Americans. They deserve a serious, bipartisan effort to make this happen.

THE BUNDESBANK MUST BROADEN ITS HORIZONS

The end of the cold war has had many unintended consequences. One of the most important has been the shift of Western Europe's geopolitical center away from Brussels, home to the European Community, to Frankfurt. There, 16 men meet every second Thursday at the Bundesbank to dictate Europe's economic agenda.

So far this year, that agenda has been antigrowth. The Buba has pursued a policy of fighting inflation through high interest rates and a strong mark, and economic expansion and job growth have suffered. Even as the Japanese central bank cuts its discount rate a surprisingly large 0.75%, to 1.75%, the Bundesbank stubbornly holds to 6.25%. This has burdened the rest of Europe with high real interest rates—nearly 6% in France.

The irony is that the Bundesbank wants none of this power over the fate of Germany's neighbors. It would prefer to be left alone to deal with Germany's own problem: an inflation rate of 4%, in large part stemming from unifi

But today the bank has economic and political r sibilities far beyond Germany's borders. Its tight mor policies are exacerbating the growth crisis in Euro survey by Drake Beam Morin Inc., international manag consultants, found that 52% of 400 of the biggest Eur companies plan to lay off workers by yearend 1995.

The same high-interest-rate policy is reducing Gerr own competitiveness. The mark has skyrocketed, pushi vestment—and jobs—abroad. Daimler Benz recentl nounced layoffs of 43,000 employees by the end of 199

The global economic engine currently is firing only U. S. cylinders. Japan is making halting efforts to g gear. Only the Bundesbank is jammed in reverse. Germ central bankers must be more willing to look—and act—t prove economic growth beyond their nation's own bor

HOW TO FIRE UP THE EXPORT MACHINE

On Sept. 29, Commerce Secretary Ronald H. B will submit to Congress a report on how the can streamline the maze of rules and regula that passes for government export policy. Brown's i agency Trade Promotion Coordinating Committee wil tempt to distill a coherent set of principles from an ama of cold war and post-cold war export controls that no lo make sense in terms of either economics or U. S. secur

Brown's timing couldn't be better. U. S. merchandise ports are growing twice as fast as exports, and the $13 lion trade deficit in goods is at a 5½-year high. Weak ec mies in Europe, Japan, and Mexico account for a good ch but not all, of that deficit. Washington's own policies ar sponsible for losses up to $40 billion in exports every y according to *Sizing Up U. S. Export Disincentives,* a book by J. David Richardson, published by the Institut International Economics. Richardson argues that the currently enforces export controls on computers and tele munications equipment even when they are freely avail on the international market. Its controls are more swee than those of Europe or Japan. The result? The U. S. l export sales without gaining a scintilla of extra security

Even when the government tries to promote export fails. There are 19 federal organizations charged with hel exporters, and they mostly protect their individual t Even the relatively clear task of export finance is twis Some 80% of federal export-finance aid goes to agricult which accounts for a mere 10% of the value of all expor

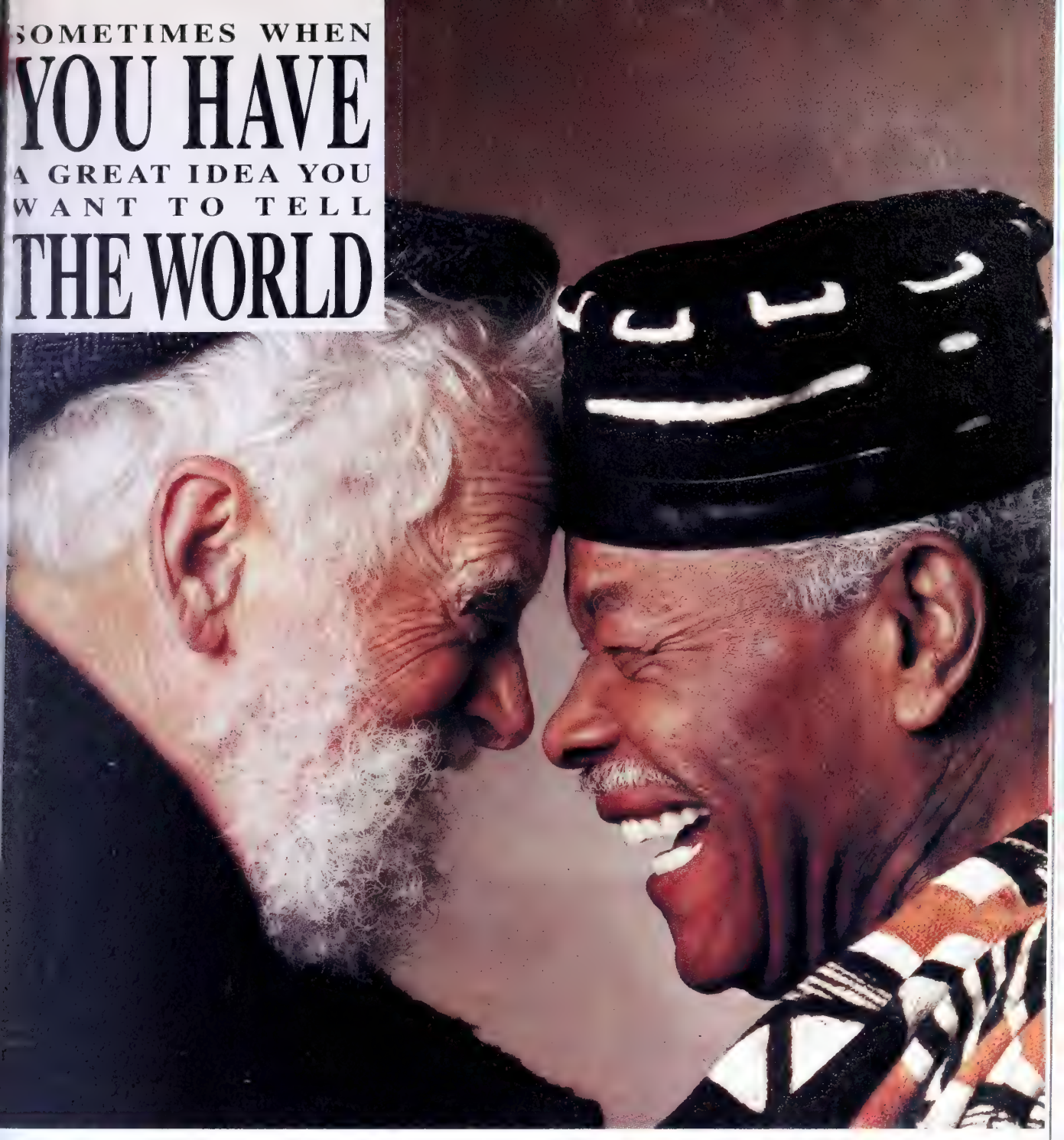
What must be done? First, create one-stop shopping export licensing at the Commerce Dept., and streamline bureaucracy. Second, control only those technologies t are the most sensitive militarily, not "dual-use" technolog that are easily available in commercial markets. Third, di government financial support to a wider array of expo particularly those from small and midsize companies. A bil dollars in exports generates about 20,000 good-paying jobs $40 billion can create 800,000 very happy families. W rooting for you, Ron.

SOMETIMES WHEN

YOU HAVE

A GREAT IDEA YOU WANT TO TELL

THE WORLD



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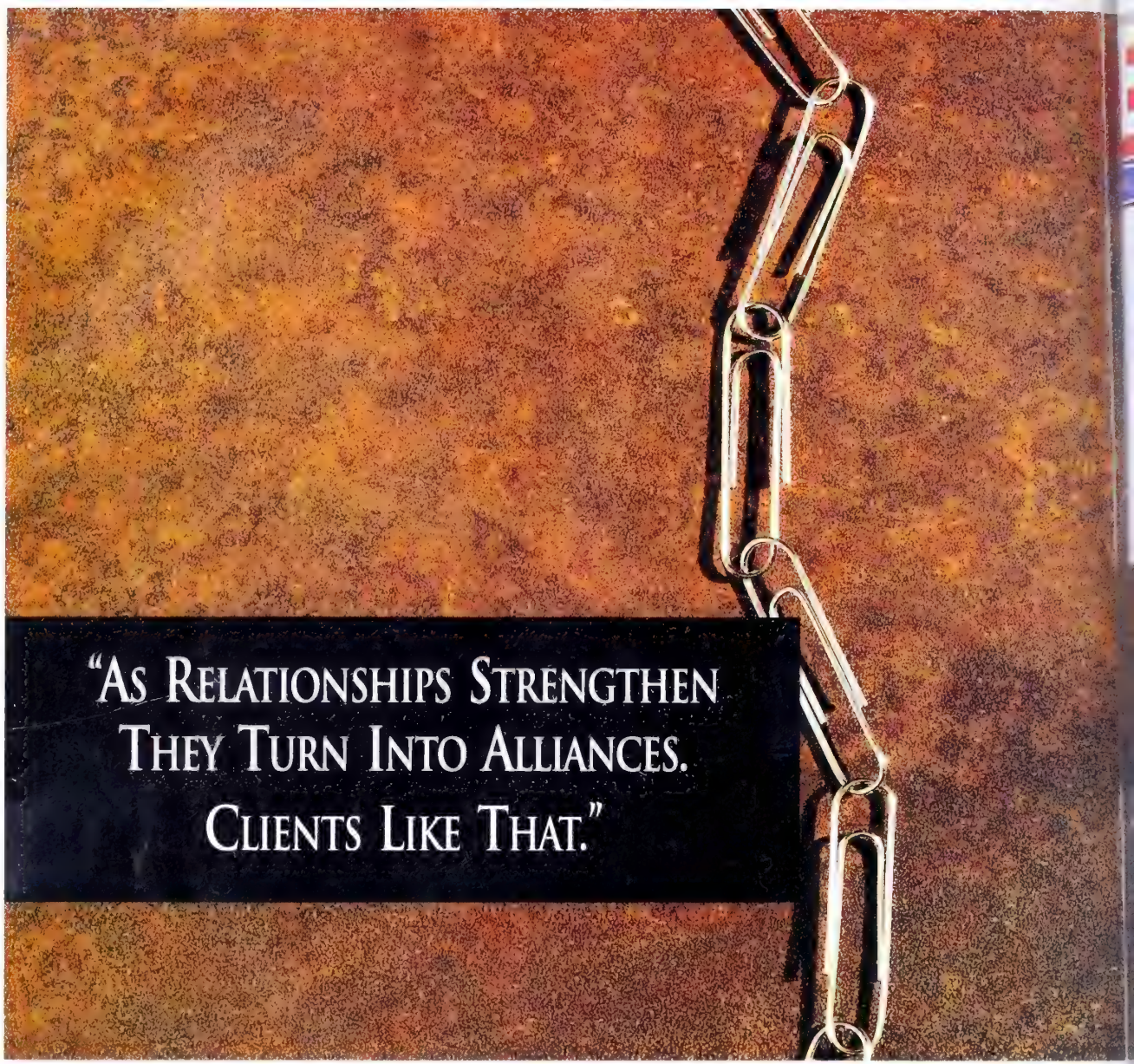

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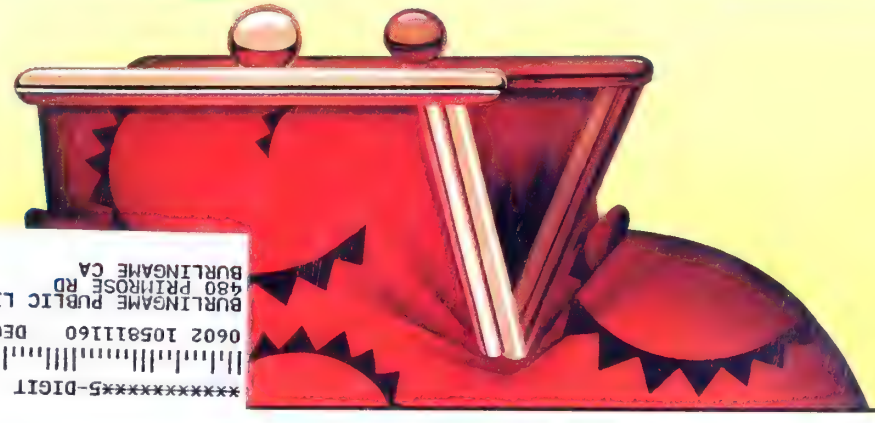

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Manager, Information Systems Operations
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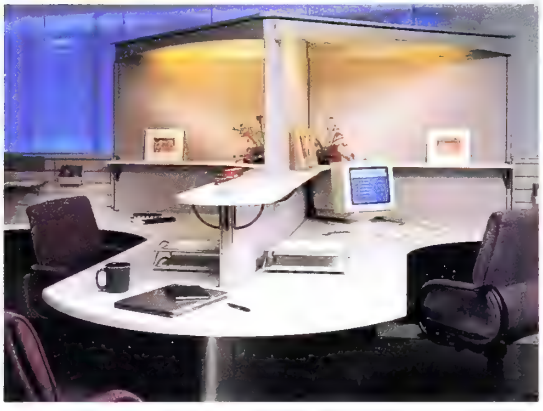

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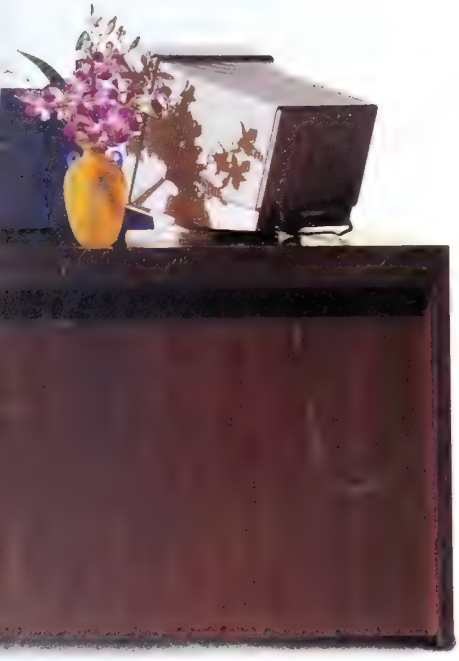

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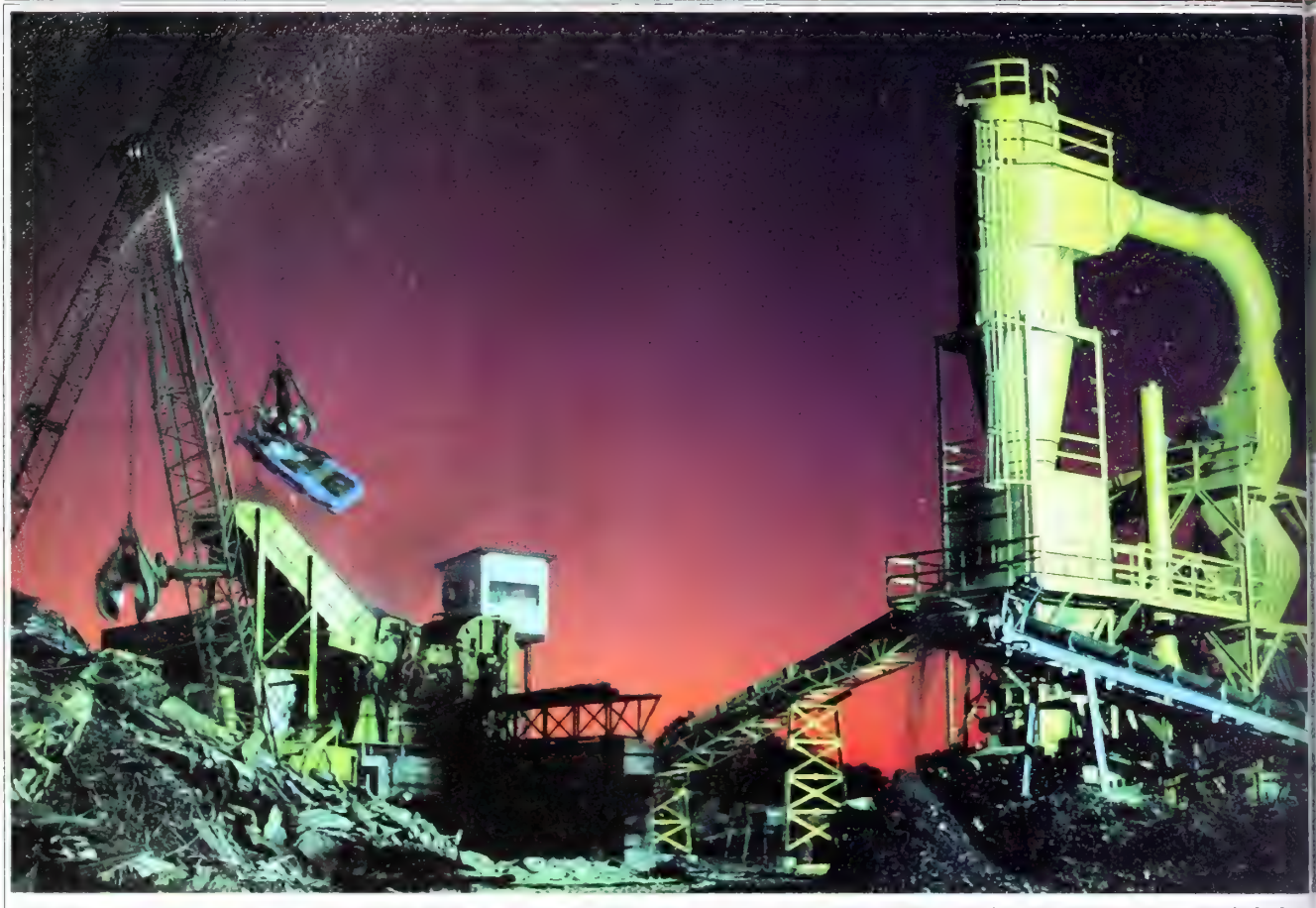


"WHY NOT BUY THE BEST COMPANIES IN THE WORLD?": FROM MEXICAN MINIMILLS TO CHINESE BEER, NEW OPPORTUNITIES LURE INVESTORS

Cover Story

120 THE GLOBAL INVESTOR
U.S. companies aren't the only ones going abroad for growth. Legions of consumers are realizing that if they want to be where the action is, they will have to invest overseas. And while it used to be difficult—if not impossible—to buy shares of foreign companies, a slew of new mutual funds, foreign listings on U.S. exchanges, and public offerings on overseas bourses have made it easy to get in on the boom

Top of the News

30 THE TAMING OF THE DEFICIT
Federal spending this year is rising at its slowest rate in six years

32 A DILEMMA CALLED RON BROWN
How long can Clinton afford to back his embattled Commerce chief?

32 AN UNCLE SAM-MOBILE?
Washington and Motown join forces

33 COMMENTARY
Declared terminally inept this spring, Clinton is now hailed as a master consensus builder

34 A WELCOME PROFIT SURPRISE
The economy may still feel sluggish, but it looks as if third-quarter corporate earnings could rise 29%

35 HO-HO-HUMDRUM SALES
With consumers so anxious, only discounters and toy stores may have a merry Christmas this year

36 REDSTONE'S REINFORCEMENTS
Viacom's chief gets a little help from his deep-pocketed friends to make his Paramount bid fly

38 FLOOD? WHAT FLOOD?
A lot of farmers, even in devastated states, expect bumper crops

40 ALL PLAY AND NO WORK
Some employers are cracking down on computer games in the office

43 IN BUSINESS THIS WEEK
Pension insurance, Leslie Fay, Apple's new operating system, David Paul, P&G, Hertz

International Business

48 TRADE
Japan's negotiators talk tough and warn of little progress

51 EUROPE
The currency cutters' export party

51 U.S. POLICY
Clinton decides: Let the exports flo

52 EUROPE
Auto makers struggle to survive

54 SOUTH AFRICA
More investment than expected?

57 INTERNATIONAL OUTLOOK
For Jordan, peace seems almost as scary as war

Economic Analysis

22 ECONOMIC VIEWPOINT
Dornbusch: Kick-starting Europe

26 ECONOMIC TRENDS
The Nobel race, leading economies new U.S. immigrants, baby boome

27 BUSINESS OUTLOOK
The oomph from interest rates

THE YEAR OF THE OUTSIDER: WHY DID WESTINGHOUSE PICK MICHAEL JORDAN? UNENCUMBERED BY EMOTIONAL BAGGAGE, HE BRINGS A "RUTHLESS LOGIC" TO THE JOB

48 THE JAPAN THAT'S SAYING NO: PRIME MINISTER HOSOKAWA, FACED BY ECONOMIC WOES, FINDS IT HARD TO ACCEPT U.S. DEMANDS FOR OPEN MARKETS—EVEN FOR APPLES

30 BILL'S BUDGET BOON: PRESIDENT CLINTON CAN COUNT HIS BLESSINGS: LOW INFLATION, DEFENSE CUTS, AND OTHER TRENDS THAT ARE TRIMMING THE DEFICIT

Government

WASHINGTON OUTLOOK
It's becoming a city of amateurs

The Corporate Elite

INSIDERS ARE OUT
Boards are passing over homegrown talent for the top slot

MEET THE CHIEF
A portrait of the typical boss

CEOs OF THE TOP 1000

People

RAP MASTER SILVERMAN
His Tommy Boy label gives Warner clout in cutting-edge pop

Science & Technology

THE ATM RACE IS ON
Japan has the lead in high-tech, high-volume phone switches

DEVELOPMENTS TO WATCH
Childbirth, cars' steel diet, valves, skin grafts, fridges without fungi

Finance

MUTUAL FUNDS ARE FAT
And investors are happy—which will keep the billions rolling in

INSIDE WALL STREET
The Disney bears are on the prowl
Three banks with great figures
Old Republic's big-name fans

INVESTMENT FIGURES OF THE WEEK

Industries

138 SWEET HOME ALABAMA
An inside look at how the state snagged a widely coveted Mercedes factory

Information Processing

140 STALKING THE PC NERDS
Computer jocks get ribbed, but they're a $5 billion market—and the giants are paying more attention

142 E-MAIL FOR THE MASSES
On-line services give millions access to Internet's messaging system

138 MERCEDES IS ALABAMA BOUND: THANKS TO FEVERISH PITCHWORK AND FORAYS TO STUTTGART BY LOCAL VIPs, THE STATE IS GETTING ANDREAS RENSCHLER'S $300 MILLION PLANT

Legal Affairs

143 SNIFFING OUT UNFAIR LENDERS
Clinton's watchdogs are on the prowl—and showing a zeal that unsettles many banks

Sports Business

144 THE RED PENGUIN BRIGADE
A Pittsburgh group buys a half interest in the Russian hockey team—and brings glitz to the games

Personal Business

154 INVESTING: When to fold stocks
FASHION: Earth-friendly clothes
SMART MONEY: Economy plays
COLLECTING: Antique fountain pens

Features

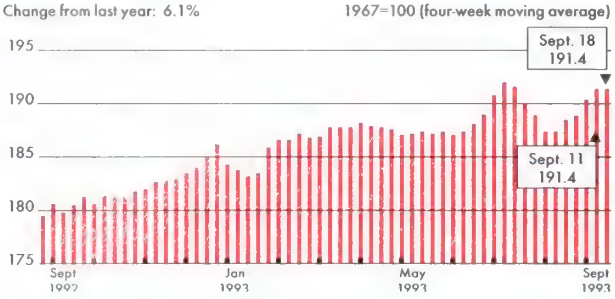
6 BUSINESS WEEK INDEX
7 READERS REPORT
10 CORRECTIONS & CLARIFICATIONS
16 BOOKS
Keller: *Collision: GM, Toyota, Volkswagen and the Race to Own the 21st Century*
Byrne: *The Whiz Kids: Ten Founding Fathers of American Business and the Legacy They Left Us*
159 INDEX TO COMPANIES
162 EDITORIALS
The new needs of the middle class
Triple jeopardy on the trade front

Week (ISSN 0007-7135) published weekly, except for one issue in January, by McGraw-Hill Inc. Executive, Editorial, Circulation, and Advertising Offices: 1221 Avenue of the Americas, New York, N. Y. 10020. scriber rate: $46.95/year; Canada: CDN $69/year. Second-class postage paid at New York, N. Y., and at additional mailing offices. Postage paid at Montreal, P. Q. Canada Post International Publications duct Sales Agreement No. 246484. **Postmaster:** Send address changes to BUSINESS WEEK. P. O. Box 430, Hightstown, N. J. 08520.

BusinessWeek Index

PRODUCTION

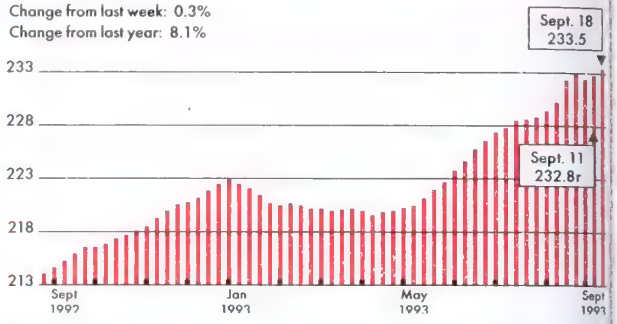
Change from last week: 0.0%
Change from last year: 6.1%



The production index was unchanged during the week ended Sept. 18. On a seasonally adjusted basis, increased output levels of trucks and rail-freight traffic offset production declines in steel, autos, electric-power, coal, paper, paperboard, and lumber. Crude-oil refining output was unchanged from the previous week. Before calculation of the four-week moving average, the index dropped to 190.2 from a reading of 191 in the week before

LEADING

Change from last week: 0.3%
Change from last year: 8.1%



The leading index increased modestly during the week ended Sept. 18. Stoc prices rebounded a bit after taking a tumble in the previous week, while fewe business failures and stronger growth of M2 lifted the index. Higher bond yields an deteriorating growth rates for materials prices and real estate loans offset some o the other indicators' strength. Before calculation of the four-week moving average, th index was unchanged at 234.6.

PRODUCTION INDICATORS

	Latest week	Week ago	% Change year ago
STEEL (9/25) thous. of net tons	1,798	1,833#	7.0
AUTOS (9/25) units	111,493	108,337r#	−10.3
TRUCKS (9/25) units	105,385	104,457r#	19.8
ELECTRIC POWER (9/25) millions of kilowatt-hours	58,496	59,090#	0.3
CRUDE-OIL REFINING (9/25) thous. of bbl./day	13,884	13,852#	1.1
COAL (9/18) thous. of net tons	19,405#	17,528	−1.0
PAPERBOARD (9/18) thous. of tons	796.2#	798.8r	−0.1
PAPER (9/18) thous. of tons	798.0#	805.0r	−0.5
LUMBER (9/18) millions of ft.	482.6#	389.2	−0.3
RAIL FREIGHT (9/18) billions of ton-miles	22.1#	19.4	3.3

Sources: American Iron & Steel Institute, *Ward's Automotive Reports*, Edison Electric Institute, American Petroleum Institute, Energy Dept., American Paper Institute, WWPA[1], SFPA[2], Association of American Railroads

FOREIGN EXCHANGE

	Latest week	Week ago	Year ago
JAPANESE YEN (9/29)	105	106	121
GERMAN MARK (9/29)	1.61	1.63	1.49
BRITISH POUND (9/29)	1.51	1.52	1.70
FRENCH FRANC (9/29)	5.63	5.68	5.04
CANADIAN DOLLAR (9/29)	1.32	1.32	1.24
SWISS FRANC (9/29)	1.41	1.42	1.30
MEXICAN PESO (9/29)[3]	3.118	3.106	3.103

Sources: Major New York banks. Currencies expressed in units per U.S. dollar, except for British pound expressed in dollars

PRICES

	Latest week	Week ago	% Change year ago
GOLD (9/29) $/troy oz.	353.200	354.400	1.2
STEEL SCRAP (9/28) #1 heavy, $/ton	112.50	112.50	29.3
FOODSTUFFS (9/28) index, 1967=100	211 6	210.8	6.3
COPPER (9/25) ¢/lb.	87.0	89.1	−22.4
ALUMINUM (9/25) ¢/lb.	52.3	52.8	−10.1
WHEAT (9/25) #2 hard, $/bu.	3.25	3.35	−8.7
COTTON (9/25) strict low middling 1-1/16 in., ¢/lb.	56.03	54.23	6.1

Sources: London Wednesday final setting, Chicago market, Commodity Research Bureau, *Metals Week*, Kansas City market, Memphis market

LEADING INDICATORS

	Latest week	Week ago	% Chan year a
STOCK PRICES (9/24) S&P 500	455.91	460.36	8
CORPORATE BOND YIELD, Aaa (9/24)	6.79%	6.66%	−14
INDUSTRIAL MATERIALS PRICES (9/24)	94.4	94.7	−5
BUSINESS FAILURES (9/17)	331	336	−14
REAL ESTATE LOANS (9/15) billions	$403.9	$404.2r	0
MONEY SUPPLY, M2 (9/13) billions	$3,504.7	$3,498.2r	1
INITIAL CLAIMS, UNEMPLOYMENT (9/11) thous.	324	322	−21

Sources: Standard & Poor's, Moody's, *Journal of Commerce* (index: 1980=100), Dun & Bra street (failures of large companies), Federal Reserve Board, Labor Dept. CIBCR seasonally adju data on business failures and real estate loans

MONTHLY ECONOMIC INDICATORS

	Latest month	Month ago	% Chan year a
ORDERS FOR DURABLE GOODS: MFG. (Aug) billions	$131.2	$128.6r	9
BUDGET SURPLUS OR DEFICIT (-) (Aug) millions	−$23,230	−$39,577	−6
CONSUMER PRICE INDEX (Aug)	144.8	144.4	2
RETAIL SALES (Aug) billions	$173.5	$173.1	6

Sources: Commerce Dept., Treasury Dept., BLS, Census Bureau

MONETARY INDICATORS

	Latest week	Week ago	% Chan year a
MONEY SUPPLY, M1 (9/13)	$1,103.7	$1,102.9	12
BANKS' BUSINESS LOANS (9/15)	271.2	267.7	−2
FREE RESERVES (9/15)	325r	823r	−31
NONFINANCIAL COMMERCIAL PAPER (9/15)	162.8	158.0	11

Sources: Federal Reserve Board (in billions, except for free reserves, which are expressed fo two-week period in millions)

MONEY MARKET RATES

	Latest week	Week ago	Ye a
FEDERAL FUNDS (9/28)	3.08%	3.23%	3.41
PRIME (9/29)	6.00	6.00	6.00
COMMERCIAL PAPER 3-MONTH (9/28)	3.18	3.16	3.39
CERTIFICATES OF DEPOSIT 3-MONTH (9/29)	3.09	3.12	3.10
EURODOLLAR 3-MONTH (9/24)	3.06	3.08	3.10

Sources: Federal Reserve Board, First Boston

#Raw data in the production indicators are seasonally adjusted in computing the BW index (chart); other components (estimated and not listed) include machinery and defense equipme
1=Western Wood Products Assn. 2=Southern Forest Products Assn. 3=Free market value NA=Not available r=revised NM=Not meaningful

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Doug Allen, President,
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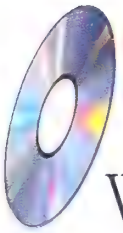

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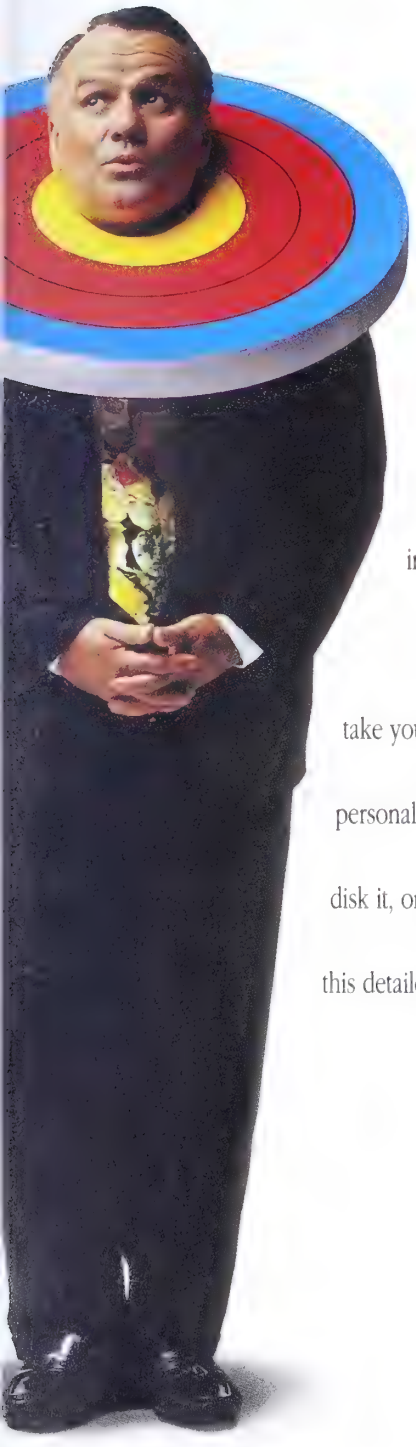

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Readers Report

HEALTH-CARE REFORM: SECOND AND THIRD OPINIONS

Regarding "Business can't hide its doubts" (Top of the News, Sept. 20), we need universal health coverage with access to care for the unemployed, for people with preexisting conditions, and for the poor.

Personally, there are areas that concern me. President Clinton's plan is presented as one that encourages "managed competition" and diversity, giving freedom of choice to Americans and lower costs with quality care. However, his plan encourages the opposite by incorporating the following elements:

- Allowing a state to adopt a one-payer system.
- Allowing a state to mandate that all companies must join the government alliance instead of allowing large companies to continue high-quality, low-cost self-insurance programs.
- Cutting Medicare and Medicaid, which are already contained at a level below actual cost on some services.

In an era when the global direction is toward free enterprise, are we to inadvertently opt otherwise?

Ilene Sokoloff
Los Altos, Calif.

As you have described it, the Administration's health plan is a kind of crazy-quilt, stitched together from contradictory and unwarranted assumptions and half-truths. It will no doubt improve the lot of the currently uninsured. The rest of us, I fear, will receive less of the same. We will be at the mercy of second-rate doctors and inferior providers.

If we really want a level playing field, we will stop putting out these idiotic proposals and go to a single-payer system on the lines of the Canadian system.

James C. Daugherty
Bradenton, Fla.

The health-care debate illustrates the difficulty this nation has with fixing any problem we have. The problem is our conflicting demands. We want a Mercedes but can only afford a Yugo. We also distrust our government, but plead with it to do something to help us. Everyone agrees American health care is broken but is unwilling to make one compromise to fix it.

Of course the Administration has to say the "three fibs" about health-care reform ("Three fibs that won't help health reform," Top of the News, Sept. 20). Who can forget Walter Mondale telling the American public flat out that he was going to have to raise taxes to cut the deficit? At least the Presidents who followed had the common sense to lie about raising taxes before they were in a position to do so.

I'm willing to try a plan that has the care President Clinton seems to have invested in it. If it doesn't work, or needs improvement, then I'm sure he will be willing to make changes. I honestly don't know if his plan is the best, but I do know he is at least trying. I'm a hard-nosed realist who does not want to be an armchair critic any longer and who knows that success in this battle will equal pain.

Bruce N. Hoglund
Redstone Arsenal, Ala.

'BANKS ARE CHOKING SMALL BUSINESS'

In regard to "Greenspan should lean on the banks" (Editorials, Sept. 20), other than Small Business Administration loans, there is no bank lending to small business. A typical banker's response to any small business, no matter how well-collateralized and how good its project is, will be, "What is the secondary source of payment?" Quick interpretation: "We'll lend you a million dollars, if you have a million dollars in additional liquid security apart from your business."

The banks are choking the engine of entrepreneurial small business of this country—and therefore of job growth. A great service would be done if we had an accurate public disclosure of all the commercial banks' lending on a quarterly basis.

This public reporting should include loans as percent of capital by bank and by region broken down as to business or consumer and categorized as to businesses with sales less than $5 million, $5

BUSINESS WEEK
OCTOBER 11, 1993 * * * 3340
ISSN 0007-7135

Published weekly, except for one issue in January, by McGraw-Hill, Inc. Founder: James H. McGraw (1860-1948).

Executive, Editorial, Circulation, and Advertising Offices: McGraw-Hill Building, 1221 Avenue of the Americas, New York, N.Y. 10020. Telephone: 212-512-2000. Telex: Domestic 127039; Int'l 2360127039. U.S. subscription rate $46.95 per year; 2 years, $78.95; 3 years, $104.95. Single copies, $2.75; back issues, $5. Write for rates in other countries. Subscriber Service: 1-800-635-1200. TDD: 1-800-554-1579.

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CORRECTIONS & CLARIFICATIONS

Because of a computational error Morningstar Inc., the estimated tax ability for the Pioneer Fund was inc rectly reported ("How much are y really earning on your mutual fund Finance, Sept. 27). The correct figu is 37%.

In "A Smithsonian for stinkers" (Cov Story, Aug. 16), a photo showed pr ucts collected by The New Produ Showcase & Learning Center of Itha N.Y. The caption should have point out that some of the products are s cessful, including the Original Flav Cheese Straws made by Old Chisho Trail Inc. of Fredericksburg, Tex.

to $50 million, $50 to $500 million, a $500 million and above. With that da I think you would clearly see the r story and the real problem.

J. William Sharman
Presid
Lancaster Group I
Hous

MORE ADVICE FOR BRAZIL'S TECHNOCRATS

Thank you, Rudi Dornbusch, for free advice in a four-step progr for economic reform in Brazil ("Econo ic reform: Just do it, Brazil," Econo Viewpoint, Sept. 13). Additionally, country will not get out of the slump til the technocrats:

- Cut the red tape and requireme for people to open new small busines (it takes a minimum of six months).
- Decrease the bureaucracy inheri from the Portuguese during colon times.
- Institute education reform to decre the perpetually high illiteracy rate the population.

I regretfully say that the politician Brazil historically have never paid h to sound advice like yours. They too busy being crooked.

José C. Ne
São Pa

WHAT'S REALLY BEHIND THE McKINSEY MYSTIQUE?

Quiz time. What do corporate l offs, massive debt, and senior ex utives from IBM, Eastman Kodak, Sea General Electric, Phillips Petroleum, and Frito-Lay have in common? Answ McKinsey & Co. Now I ask, how do define success ("The McKinsey m tique," The Corporation, Sept. 20)? fining and opening new markets and

vely maintaining a confident, fo-
staff? Or is it corporate downsiz-
ıd dysfunctional borrowing?
ere is at least one market that
nsey has opened and expanded:
ate outplacement.

Robert Vamvas
Seabrook, Tex.

HICAGO BOARD OF TRADE DS BEHIND GLOBEX

garding the Commentary "Short-
ghtedness is short-circuiting Chica-
LOBEX" (Finance, Sept. 13), I would
o update you on the progress the
go Board of Trade has made on
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rtunities for our members, and to
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to market participants around the
. While we have many arrows in
quiver, our goal is not to create
arrows, but to hit the bull's-eye.

Patrick H. Arbor, Chairman
Chicago Board of Trade
Chicago

A: LOOKS LIKE EVERYONE'S AND LOOSE WITH THE FACTS

the article "Is Pat Choate playing
t and loose with NAFTA?," (Top of
News, Sept. 20) you chastise Choate
is use of facts against NAFTA. Here
some of the misstatements spread
is critics:

AFTA will slow down immigration
Mexico.

Mexico does not abide by the side
ements on the environment and
er safety, the revised treaty pro-
s for effective countermeasures.

b loss to Mexico will be limited and
ort duration.

he treaty will make limited differ-

Readers Report

ence because American industries a moving south, anyhow.

Wait and see who has the facts.

Amitai Etzi
Found
International Society for t
Advancement of Socio-Econom
George Washington Universi
Washingt

You give the impression that Unit We Stand America membership universally against NAFTA ("The ne kids in Congress who could block NA TA," Washington Outlook, Sept. 20). T 1992 Presidential race was probably special one-time event in which Ro Perot made significant contributions changing the terms and substance the debate. However, it does not nece sarily follow that the 20% who vot for him will stick as a bloc for the 19 races for Congress or even for Ross P ot in 1996, should he run.

Within the so-called ranks of Perotn tas there exist a significant number individuals, including me, who are d mayed at Perot's tendency to resort simplistic but catchy one-liners, dist tions, and outright liberties with t truth on NAFTA and other issues.

Perot and Pat Choate appear to unable to draw conclusions from Ge many's BMW and several Japanese c companies who have not hesitated to cate their auto-production facilities the U. S. rather than in low-wage Me co. Who is right: Perot with his sucki noise or the companies who have inve ed billions of their own money in the ventures?

Brahm D. Prash
Springfield, V

FOR LOW BANK FEES— YOU GOTTA SHOP AROUND

Choice is an idea given too little att tion in your story "Getting soak by soaring bank fees?" (Personal Bu nesss, Sept. 20). The financial-servic marketplace is crowded with compe tors, bank and nonbank.

Bank fees, like the cost of milk, ca and your magazine, are set by a mark place where millions of individual cons mer choices are made every day. F consumers who look around, the dea will be there.

Donald G. Ogilv
Executive Vice-Preside
American Bankers Ass
Washingt

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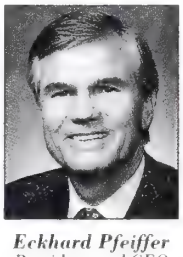

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COLLISION: GM, TOYOTA, VOLKSWAGEN AND THE RACE TO OWN THE 21st CENTURY
By Maryann Keller
Doubleday • 287pp • $25

ON A COLLISION COURSE WITH THE FUTURE

Contrary to its hyped-up title, Maryann Keller's *Collision:* GM, *Toyota, Volkswagen and the Race to Own the 21st Century* isn't really about the rivalry among three car companies. Rather, it is an anecdote-packed analysis of the crises simultaneously confronting the largest auto maker in each of three economies—the U. S., Japan, and Germany. The book examines the faulty judgments that got these companies into such messes and sizes up the men who, for better or worse, are now fated to steer them out. Each corporation "is standing at a critical moment—a crossroads between the past and future where daring actions will be required," Keller writes. The collision, then, is not so much with one another as with the future.

Keller, automotive analyst for the New York brokerage firm Furman Selz Inc., breaks with conventional, nationalistic thinking to define a new Global Big Three: GM, Toyota, and Volkswagen. Each dominates its home market yet suffers problems born of size and complexity. Each has served as an innovator for the industry: GM created cars for every income, taste, and need; VW's Beetle rattled American complacency and proved small cars can sell; and Toyota's lean production system created a new global standard. Yet each now must remake itself to survive and prosper in an unfamiliar world of saturated markets and borderless competition, where sheer growth can no longer mask inefficiencies.

The bulk of *Collision* briskly details how corporate culture and nationality have shaped each company's woes. Toyota felt so invincible with its flexi production system, which allowed h dreds of options per car, that it dic notice until the market tanked just h costly that system had grown. GM ex utives, isolated as they were on the c porate headquarters' 14th floor, blam the Japanese and the soft economy hemorrhaging cash flows until the bo of directors mutinied in 1992. Volksw gen, strapped by soaring German lab costs and trapped in the mentality volume production throughout the '8 tilted so sharply toward financial cha that it became the scene of another r utation-shattering boardroom brawl, sulting in the ouster of CEO Carl Hahn in early 1993.

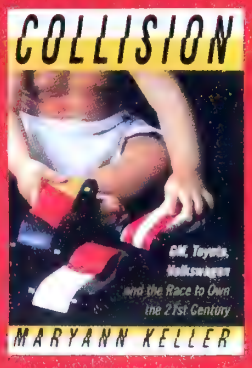
While you might be tempted to sl ahead, it's worth wading through t lengthy description of the 1991 Tok Motor Show that opens the book, w well as the accounts of other auto sho later on. At first, they seem to be obs vations that could have been record by any of the thousands present, b they quickly shift into the insider's an ysis that Keller weaves through h book with clear prose and biting, son times brutal, honesty.

She reports the rumors that the

President Ferdinand was absent from okyo show because Hahn wanted the ght to himself and udi division was out-rming the rest of Describing the De-Auto Show of Janu-1993, she shows us t Chairman Robert empel, ashen-faced, g at a display booth ne still ran the com-apparently unable cept the loss of his r.

fact, the book's strength is Keller's tion of the players. she calls it like she sees it. While as only praise for GM President Smith, the first industry source ted in the book's acknowledge-s, she slams ex-Chairman Roger n for botching his restructuring of ompany. Stempel she depicts as a nt man but a wimpy leader in a ant state of denial and fingerpoint-Piëch, though perhaps the best e to lead VW out of its financial cri-omes across as a conniving power-per with no social graces. And Kel-

Which company will dominate the world's auto business in the 21st century? Keller picks GM

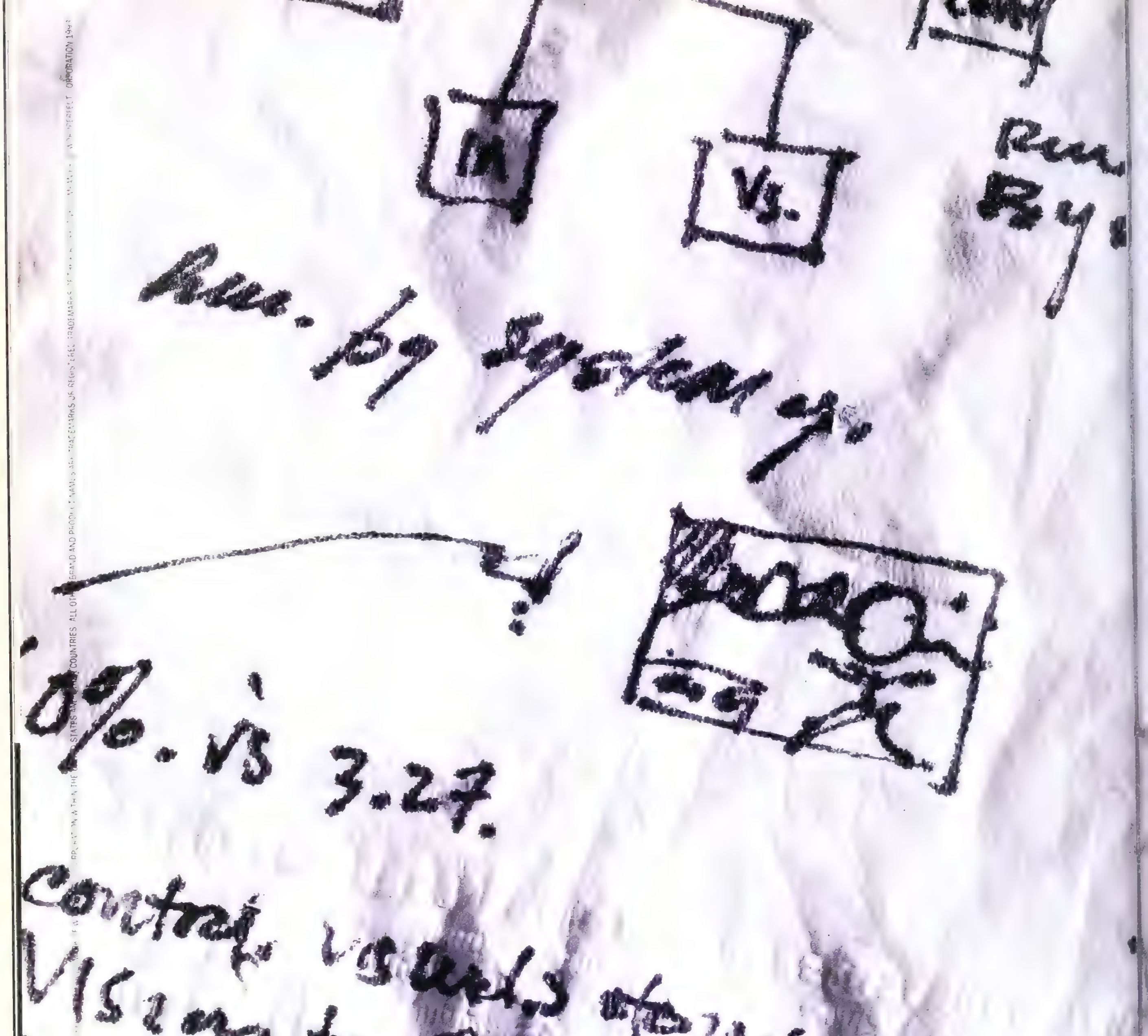


ler barely sugarcoats the consensus in Japan about Toyota President Tatsuro Toyoda: that he simply inherited the post and lacks both the charisma and the brainpower of his predecessors.

Keller clearly has command of the intricate goings on at GM, and the sections dealing with the American giant are imbued with the same fly-on-the-wall perspective that marked her first book, *Rude Awakening: The Rise, Fall and Recovery of General Motors*. GM's boardroom coup and the agonized flip-flop of purchasing whiz José Ignacio López de Arriortua between GM and VW make for a gripping tale. While Keller has boned up on the histories of Toyota and VW and conveys them authoritatively, she is less penetrating in detailing the views of the key participants. Her misspelling of several Japanese words reinforces the impression that she's a relative neophyte in this area.

Which auto maker will win "the race to own the 21st century"? Keller outlines four criteria to judge how well her Global Big Three are preparing: awareness of problems, strong company vision, adaptability, and understanding of the product and consumer. Her conclusion: GM is best poised to prosper because "it experienced a near-fatal crisis that shocked every fiber of its corporate being, and it is using that crisis to transform itself." All GM has to do now, she posits, is use its resources to create cars and trucks that people want to buy. No small matter.

It's hard to tell how much Keller's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usion—that GM will triumph—de- on her intimate knowledge of that any. While she does make a con- ig argument that VW lacks flexibil- he's relatively superficial in her n on understanding the product onsumer, an area where the Japa- have long excelled. Her discussion yota, also embroiled in a shocking as it girds for an operating loss year, doesn't mention the compa- radical realignment of product s to eliminate duplication. Nor does int out what has happened at its st factory, in Kyushu: There, Toyo- cognized that it was wasting money necessary automation and scaled to be more cost-effective.

s Keller correctly picked the win- It will be another decade or so be- ve know. What counts is that she is g the right questions and has ana- what the world's top auto mak- ust do to compete in the coming ry. *Collision* is an eye-opener for ne who cares about the fate of car anies.

BY KAREN LOWRY MILLER

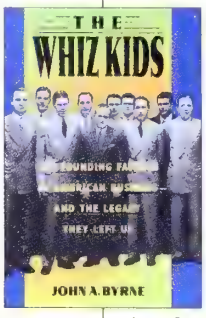
ller covered the Japanese auto in- y from 1990 to 1993 and is now l in Bonn.

BY BUSINESS WEEK WRITERS

THE WHIZ KIDS: TEN FOUNDING FATHERS OF AMERICAN BUSINESS—AND THE LEGACY THEY LEFT US
By John A. Byrne
Doubleday • 581pp • $27.50

THE NUMBERS GOSPEL

They started as a team, young officers in World War II. Their achievement was to impose on a chaotic Army Air Force a system of rational management based on statistical analysis. When the war ended, their brash leader, Colonel Charles "Tex" Thornton, telegraphed Henry Ford II to offer the group's services. With the same skills they had used in the war, Thornton claimed, these men could rescue Ford Motor Co. from its profound slump. Ford bought the package.



As the numbers-oriented bunch transformed the auto maker, they were dubbed the Whiz Kids. The best-known, Robert S. McNamara, rose to be president of Ford before leaving to become Defense Secretary and preside over the tragedy of Vietnam. He then went on to head the World Bank. Another Whiz Kid, Arjay Miller, also became Ford president. Others fared less well. Among the first to leave the company was Thornton, who found eventual, although not lasting, success in shaping Litton Industries Inc. into the model of the modern conglomerate.

At Ford and elsewhere, the Whiz Kids spread the gospel of management by the numbers—often at the expense of emotion, intuition, even product knowledge. BUSINESS WEEK Senior Writer John A. Byrne probes the consequences of this "revolution," counting among them the very loss of U. S. competitiveness.

But this is more than a management critique. Delving deeply into the men's private lives, Byrne explores how the personal shaped the professional—the dreams the men dreamed, the risks they might, or might not, dare to take. The Whiz Kids is a tale of ambition and disappointment, loyalty and rivalry, success and failure, second chances and suicide.

HOW EUROPE CAN MAKE GROWTH HAPPEN

BY RUDI DORNBUSCH

Progress in cutting massive unemployment can come from achieving much lower interest rates and ending mulish adherence to the remnants of a European Monetary System

Unemployment in Europe has been rising for 20 years. There was a brief interruption of that pattern in 1987-90, but that's history. Unemployment is projected to rise this year, next year, and for who knows how long thereafter. Mass unemployment has become the overwhelming problem of the decade.

Two decades ago, European unemployment was a comfortable 2% to 3%. There was work for just about everybody, and the thought of 25 million people out of work was a story out of the 1930s, not a peek into the foreseeable future. Today, unemployment is expected to reach 25% of the labor force in Spain. In France, it is in the low teens.

Explanations for high joblessness abound. One school of thought sees a lack of flexibility: Europe has become stifled by rules and regulations. Shops can't open when people want to buy, bars can't open when people want to drink. Workers must rest when businesses want to produce, and being green is far more important than growth and jobs.

A PERVASIVE STATE. Another school focuses on labor costs: On top of already high wages are piled a myriad of overheads that double the cost of labor. Prominent among these burdens are social security contributions by employers of up to 40% of earnings and all the other costs of an overly pervasive, expensive, and inefficient state. A third school concentrates on unemployment compensation. Workers are rational, and generous extended unemployment benefits make unemployment an attractive profession.

Finally, there is the Keynesian school: Unemployment is rising because there is no growth. To create jobs on a scale that avoids rising unemployment, demand must grow enough to outpace productivity growth and growth of the labor force. That hasn't happened. As is usual in a heated debate, every protagonist holds a piece of the puzzle. But some are more right than others.

European policymakers watch the U. S. economy with envy. It may not always seem that way in the U. S., but in general most people can find jobs, even if they aren't great jobs. Unemployment in the U. S. is moderate, and jobs are being created month after month—2 million new jobs since the trough of recession in 1991. Part of the reason is great flexibility, both in terms of employment (hire today, lay off tomorrow, if you must) and in pay. Europeans can't bring themselves to endorse a low-wage strategy, but they find flexibility an attractive concept.

France is trying to move maximum working hours from a weekly to an annual ceiling. Germany is flirting with privatization of telec munications, and there are rumors that sh may be allowed to open on weekends. T cheers for such flexibility. But by itself, it w solve the problem of mass unemployment.

Unemployment will come down only wh spending and output grow enough. Out growth must exceed 2.5% to 3% per ye Every percentage point of shortfall in gro translates into an extra one-half percenta point in the unemployment rate. The impl tions are clear: The consensus forecast about 1% growth in Europe in 1994 me another percentage point added to the un ployment rate.

A lot is at stake in Europe. High un ployment fosters a political climate of natio ism and nasty politics. Internationalism fac and provincial protectionism comes to the f High unemployment also stands in the w of reintegrating Eastern Europe. Without e ly market access, the East won't take off e nomically. More and more people from East will migrate to the West, causing e greater unemployment and nastier polit High European unemployment surely hobb world trade. When people don't have jo the blame soon falls on imports. Before lo the world-trade system is seriously challeng

How to spur more growth? Supply-side icies are good, but they take a decade work, not a year. Real progress can co from achieving much lower interest rates, insisting less on immediate fiscal correction return to lower interest rates is stymied mulish adherence to the remnants of a Euro an Monetary System. France, for examp could join Italy and Britain in severing exchange-rate tie with Germany, cut inter rates, and enjoy growth. But—shades of 1930s—the status quo is given priority o plain common sense.

DANGEROUS THINKING. Should countries wh deficits are inflated by high unemploym raise taxes to make unemployment even hi er? Every finance ministry espouses the c ma that flexibility of markets and stability rules are the only way to remedy unempl ment. Stimulating growth would set back clock. That is dangerous thinking today, just it was in the interwar period. Unemploym will only yield to growth: Tight money premature fiscal restraint are sure ways choke growth.

So three cheers for making growth happ Now is the time to shift to a new ager Lower interest rates and less insistence immediate fiscal correction can create growth that is needed to bring down un ployment in Europe.

RUDI DORNBUSCH IS PROFESSOR OF ECONOMICS AT MASSACHUSETTS INSTITUTE OF TECHNOLOGY

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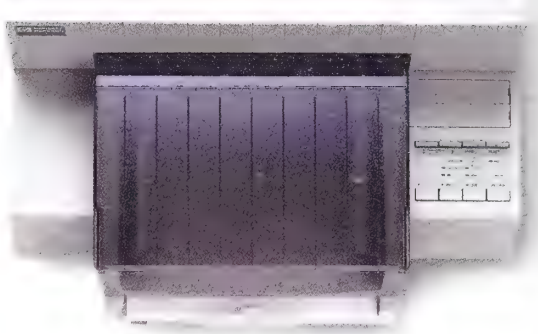

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BY MICHAEL J. MANDEL

THE NEXT ECONOMICS NOBELIST: MODEL MAKER OR STORYTELLER?

Few economists are willing to speculate in public about who will win the Nobel Memorial Prize in Economic Science, to be announced on Oct. 12. But each year, David Romer, an economist at the University of California at Berkeley, collects Nobel predictions from 100 faculty and graduate students. This year's votes are not in yet, but the top choices in last year's survey were Gary Becker, the 1992 winner and a BUSINESS WEEK columnist; Edmond Malinvaud of France; and Amartya K. Sen, now at Harvard University.

The prize will mean prestige and $850,000 for the winner, whether it is Malinvaud, Sen, or another economist (table). But more important, the Nobel committee's choice may indicate whether economists will continue to rely on mathematical models or shift their focus to economic history and institutions.

THE RACE FOR THE 1993 NOBEL

FAVORITES	
WILLIAM J. BAUMOL/U.S.	Microeconomics
ROBERT E. LUCAS/U.S.	Rational expectations
EDMOND MALINVAUD/FRANCE	Econometrics
AMARTYA K. SEN/BRITAIN	Social welfare
LONG SHOTS	
ROBERT AUMANN/ISRAEL	Game theory
CHARLES KINDLEBERGER/U.S.	Economic history
JANOS KORNAI/HUNGARY	Socialist economics
ALBERT O. HIRSCHMAN/U.S.	Development economics
ROBERT MUNDELL/U.S.	International economics

DATA: BUSINESS WEEK

When the economics Nobel was started in 1969, the intention was to emphasize that "economic science" had reached the status of physics and chemistry. Most of the winners for the award's first 15 years were mathematical and statistical model makers who were looking for laws that could reliably predict economic behavior, just as physical laws predict the behavior of atoms.

But in recent years, people have become more skeptical of macroeconomic theory and econometric models. Economists continue to wrangle over such simple questions as whether raising taxes to cut budget deficits is a terrible mistake or an absolute essential.

Instead, the last two Nobels have gone to Ronald Coase and Becker, both of the University of Chicago, for their penetrating insights into institutions such as the company and the family. According to Arjo Klamer of George Washington University, an expert in the history of economics, Coase and Becker are examples of the economist as storyteller, not as physicist. "We can think of the Nobel more as a literary prize than a scientific prize," says Klamer.

Will the Nobel committee lean toward the model builders or the storytellers? A Nobel prize for Sen, mainly known for his work on social welfare and poverty, would clearly signal the importance of economic institutions. Other institutional economists mentioned as potential winners include Albert Hirschman of the Institute for Advanced Study at Princeton and Charles P. Kindleberger of Massachusetts Institute of Technology.

But don't count the model makers out yet. Besides Malinvaud, most economists expect Chicago's Robert E. Lucas to win in the near future. Lucas led the rational expectations movement, which uses sophisticated mathematics to argue that macroeconomic policy is ineffective because people anticipate the government's actions. Other possibilities include Robert Aumann of Israel, who studied formal models of bargaining, and Robert Mundell of Columbia University, who created the basic models of international economics. But no matter who gets this year's prize, it will mean less and less to everyone else if economists can't help solve real economic problems.

QUICK! NAME THE FIVE TOP NATIONS OF THE FUTURE

Looking for the future leading-edge economies? In a recent report, Union Bank of Switzerland economists came up with a new measure of future economic competitiveness based on such key variables as investment in physical capital, education, and research and development. Then they applied their new index to a wide range of developing and developed countries.

The results were surprising. The top five countries, according to the UBS index, were China, Israel, Japan, Korea, and Singapore. The U.S. checked in at No. 19, tied with Germany, while Mexico was No. 35 of 38. Korea was the clear leader in future competitiveness because it invested heavily in physical and human capital while maintaining high growth. Israel ranks high because of its investment in education.

Calculations done by the UBS econ mists suggest that if current trends co tinue, income per capita in Korea cou catch up with that of the U.S. by abo 2008, that of Japan just a few yea later. But don't worry: The U.S. grow rate should pick up, says the report, " it adopts the innovations that give t other countries their advantage."

AMERICA'S NEWEST IMMIGRANTS ARE POORER—BUT SMARTE

A new report from the Census B reau shows more clearly than ev the two-headed nature of the late surge of immigration. According to 19 Census data, new immigrants are f poorer than previous newcomers. F families headed by a post-1980 imm grant, the poverty rate was some 23% 1990. By contrast, the poverty rate up arrival for pre-1980 immigrants was 11

But new immigrants carry far mo credentials than earlier ones. About 2 of post-1980 immigrants have a bach lor's degree or higher, compared wi 19% of pre-1980 immigrants and 20% U.S.-born adults. That suggests that r ducing immigration, while it might ea the burden of poverty on the econom might cut the U.S. off from a key sour of human capital and future growth.

U.S. BABY BOOMERS ARE BETTER OFF THAN THEY THINK

Baby boomers—the generation bo between 1946 and 1964—are haunt by the notion that they will fare t worse in retirement than their parer have. But a new study from the Co gressional Budget Office (CBO) sugge that the baby boomers are much b ter off financially than their parer were at the same age. Incomes ha risen, for one thing: Today, the medi household income, adjusted for inflati for the age group 25-34 is 35% high than for the comparable group 30 yea ago, while the median income for 35- 44-year-olds has increased by 53 Household wealth, too, has gone up su stantially for both age groups.

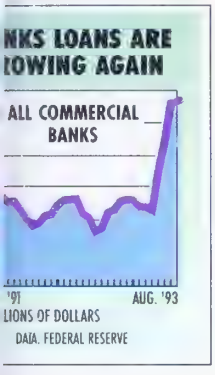
The CBO concludes that "baby boome in general will have higher real reti ment incomes than older people toda There's one catch: The CBO assumes th real wages will rise steadily over t next 30 years—but judging by the ar mic growth of the past 10 years, tha no sure thing.

3ER 11, 1993

BY JAMES C. COOPER AND KATHLEEN MADIGAN

IAT OOMPH YOU HEAR INTEREST RATES KICKING IN

s hard to be optimistic about an economy that has isappointed so many for so long. Even two years ıto the recovery, growth in the first half of 1993 ed back into the doldrums, and layoff announcements ınrelenting. But if there's any reason to be upbeat : the next few quarters, it has to be the recent that lower interest rates are finally working their : across a broad swath of the U. S. economy.



It shouldn't be too surprising that much of the good news of late is coming from the economy's interest-sensitive sectors, including homebuilding, autos, and durable-goods manufacturing. The rate declines in recent weeks will continue to lift demand well into next year and will allow further reparation of the balance sheets of businesses, consumers, and even the fed-

government (page 30).

e big downshift in long-term rates is the key. Despite Federal Reserve's massive cut in short-term rates the past four years, from 10% to 3%, stubbornly long rates largely thwarted the stimulative power of Fed's actions because most borrowing is long-term. a lot of that liquidity is finally working its way the economy.

e powerful bond-market rally that took the rate on ar Treasury issues below 6% still seems to be going ıg. After backing up a bit, to above 6% in mid-ember, the rate fell through that mark once again on . 27 on news that the Fed had voted on Aug. 17 to nd its policy bias toward tightening. The new neutral implies that the Fed no longer is worried about an nent flare-up in inflation.

SH IS OWING EER ESE DAYS

The best sign that lower long rates are finally having an impact: Bank lending is picking up. After two years of no growth, loans at commercial banks have jumped 50 billion since April (chart). Personal borrowing and estate loans account for much of that rise.

ısiness borrowing remains down, but many companies apping the equity market for funds as they continue wap debt for equity. Corporations raised $8 billion ıgh new stock issues in the second quarter, up from billion in the first quarter, which was up substantially the quarter before that.

Lower rates also are lifting corporate cash flow and profits. Through the second quarter, corporate interest costs already were down by $16 billion over the past three years, and the decline will continue in the second half. Two years ago, interest soaked up nearly 32% of corporate cash flow. That's now down to under 24%—the lowest in seven years.

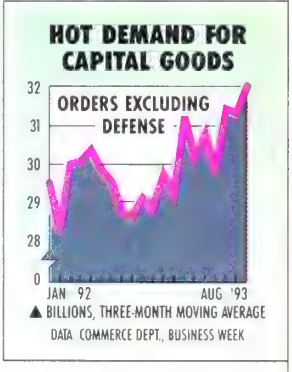
Moreover, the Commerce Dept. said second-quarter profits were stronger than originally reported. Commerce revised the quarter's growth in real gross domestic product up slightly, to 1.9% from 1.8%, and it also said the quarterly gain in corporate operating profits was more than twice as large as first reported, up 6% instead of 2.6%. Operating earnings were up 11.3% from a year ago.

AUTO DEALERS NEED INVENTORY

Lower debt, new equity capital, and better cash flow are the reasons why Corporate America has been able to increase its investment in new equipment at such a rapid pace—fast enough to account for one-third of the economy's growth during the past year. And that thrust seems likely to continue right into 1994.

New orders for capital goods, excluding military hardware, jumped 6.3% in August, to $32 billion. Such bookings have been volatile in recent months because of large swings in new orders for aircraft, but the three-month average remains in a solid uptrend (chart).

Capital goods have been a mainstay of manufacturing output in recent months, even as demand elsewhere provided little support. But because of lower rates, that may be changing. Overall orders for durable goods rose a healthy 2% in August. Again, aircraft have muddied the trend, but excluding the transportation sector, bookings for durable goods through August are well above their level in the second quarter.



The growing suggestion of an autumn pickup in manufacturing is echoed in a new index. The Business Outlook Index, compiled by the American Production & Inventory Control Society and Evans Economics Inc., says conditions in the factory sector improved in September after deteriorating in July and August.

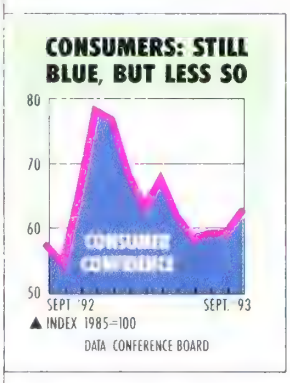
The APICS survey, which reports actual inventory levels, concluded that September stockpiles had fallen below the desired level. That suggests production increases in the

months ahead in order to replenish inventories. Indeed, auto inventories heading into the fourth quarter are so low that auto makers this quarter plan the largest quarterly production boost in five years.

A ROBUST YEAR FOR REALTORS

Lower long-term interest rates also will continue to buoy consumer spending. In particular, while households still have especially heavy outstanding debts, lower rates are easing the burden.

Several measures of consumer financial stress show greatly improved readings. Consumer and business bankruptcies—about 90% are consumer—dropped 5.5% in the second quarter, says the American Bankruptcy Institute, and the ABI expects 1993 to show the first annual decline in nine years. In the same quarter, consumer-loan delinquencies were the fewest since 1984.



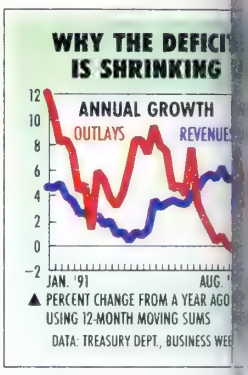
Lower rates also may be helping to thaw consumers' cold attitudes about the economy. The Conference Board says its consumer-confidence index edged higher in September, to 62.6 from 59.3 in August. That was the third consecutive small increase, lifting confidence to the highest level since April (chart).

The split between consumers' increasingly upbeat assessment of present conditions and their downbeat view of the future continued in September. The expectations component of the confidence index rose but remained at a depressed level, while the present-situation index continued to edge up, reaching the highest level in 2½ years.

That split partly explains the dichotomy between low overall confidence and consumers' recent buoyant spending patterns. The *Johnson Redbook Report*'s latest survey of retailers shows strong September sales.

Recent renewed signs of life in housing—the eco my's most interest-sensitive sector—are bound to s growth as well, both directly through new construct and indirectly via purchases of home-related goods. though sales of existing homes dipped 1.3% in August a 3.81 million annual rate, sales had increased in each the four previous months.

The strength apparently resumed in September. M gage applications for home purchases rose in the w ended Sept. 17 to a new high, says the Mortgage Bank Assn. The MBA's index of refinancings also hit a peak, s gesting that many households are cutting their mortg debt and boosting their monthly cash flow.



Even the federal government is benefiting from lower rates. Interest on the national debt, some 14% of government outlays, has not grown in more than 1½ years, after rising by some $60 billion during the previous five years. That's one factor holding the deficit down to about $260 billion in fiscal 1993, well below $290 billion in 1992.

Other factors: Annual growth of overall outlays has slowed to only 1% in 1993, partly cause fewer than expected funds for the bailout of th institutions were spent, and partly because the 1990 b get accord turned out to have some real teeth in it. A the improving economy has been generating revenues an increasingly rapid rate (chart).

To be sure, the economy still faces a burdensome se financial woes left over from the 1980s that will t years to eliminate. Until this year, lower long-term ra were the missing elixir necessary to get rid of the pa Now, the U. S. will be able to make further progress ward repairing some of its toughest structural proble that have been holding back its ability to grow.

THE WEEK AHEAD

CONSTRUCTION SPENDING

Monday, Oct. 4, 10 a.m.

Outlays for building projects probably rose a healthy 0.9% in August, forecast economists surveyed by MMS International, a unit of McGraw-Hill Inc. That's suggested by the strong gain in housing starts for the month. Construction had fallen by 0.5% in July because of a 3.9% drop in commercial construction. Homebuilding, plus increased spending on government projects, has lifted overall construction by 6% from a year ago.

CAR SALES

Tuesday, Oct. 5

New domestically made cars and light trucks probably sold at a strong annual rate of 12.1 million in late September, as buyers respond favorably to the new offerings at the start of the 1994 model year. The end-of-month pace would lift vehicle sales to an 11.6 million clip for all of September, up from 11.5 million in August.

INSTALLMENT CREDIT

Thursday, Oct. 7

Consumers probably added about $3.5 billion to their credit loads in August. That's indicated by the gains in personal bank loans and retail sales. Credit growth has increased rapidly in the past few months, including an increase of $5.1 billion in July. Better household finances and stronger consumer spending are the reasons why.

EMPLOYMENT

Friday, Oct. 8, 8:30 a.m.

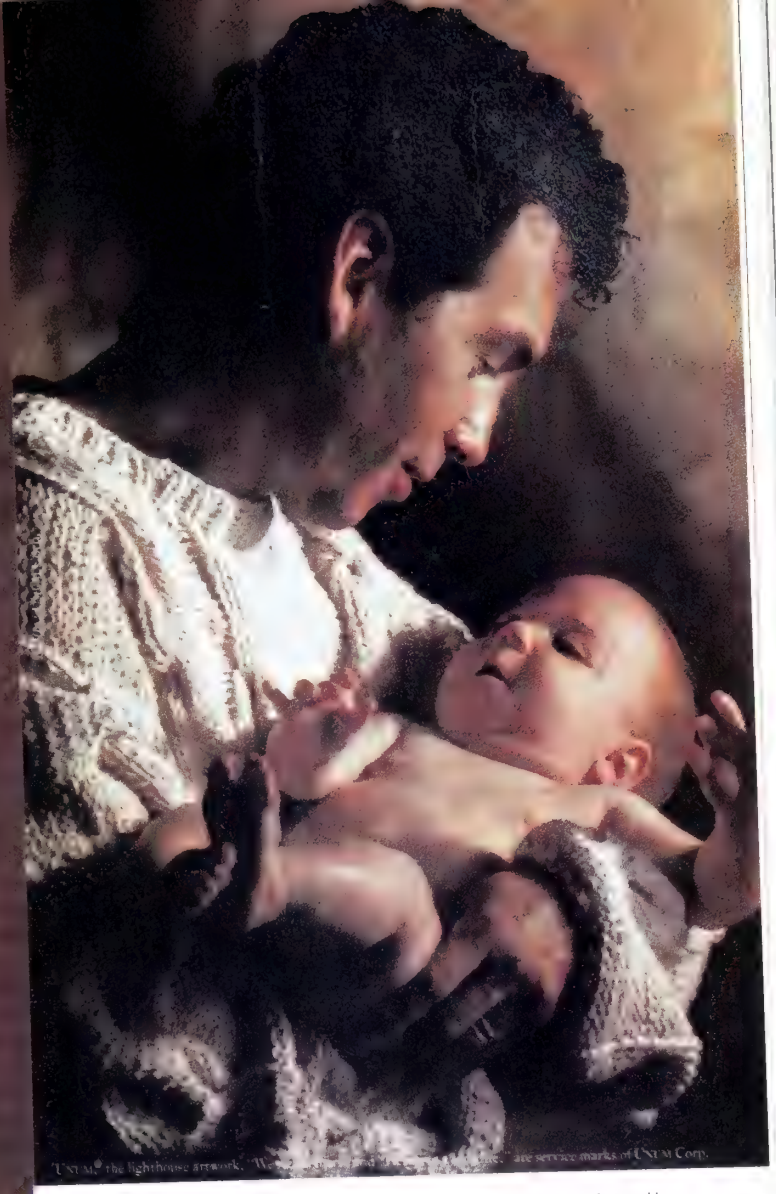
Nonfarm payrolls probably increased about 175,000 in September, say the M forecasters. However, manufactur jobs likely continued to decline, probably at a smaller rate than 42,000 lost in August. Altogether, fa ries have shed almost 200,000 so far year. Those losses are being offset gains in service employment, which risen by 1.3 million since January. P rolls shrank by 39,000 in August, some economists believe that num may be revised to show that jobs a ally rose in August. The unemploym rate in September probably remai unchanged at August's 6.7% rate.

IN 50 YEARS

T'S QUITE POSSIBLE

HIS SCENARIO

ILL BE REVERSED.



UNUM® the lighthouse artwork. W[illegible] are service marks of UNUM Corp.

Something quite wonderful is happening. We're all getting older. And living longer. Consider that, for the first time ever, the fastest growing segment of the U.S. population is over ninety years old. Or that by the year 2020, one-in-three of us will be over the age of fifty.

Consider also that sometime in the not-too-distant future you could find yourself being called upon to provide for your parents, just as they once provided for you.

Now consider a company universally looked to as the leader in disability insurance. A company that has taken the next logical step by pioneering new approaches to long term care coverage to help protect a lifetime of savings. And when you stop and think about it, it could be quite a lifetime.

Heck, we're 145 years old ourselves.

Here's to a long life.

UNUM

We see farther.

NO SMOKE, NO MIRRORS

IT'S HARDLY CLINTON'S DOING, BUT FEDERAL SPENDING IS SLOWING

For 12 years, Ronald Reagan and George Bush railed against big-spending Democrats, but neither seemed able to curb Congress' profligate ways. Now, with a Democrat in the White House, the GOP has been predicting a new spending binge. Instead, it looks as if the federal government has become downright tightfisted.

When the final tabulations are in for the fiscal year ended Sept. 30, they're expected to show that outlays rose a mere 1.7%, the smallest increase in six years (chart). More impressive, federal spending has increased just 12% over the past three fiscal years, the slowest rate for any three-year period since the 1950s. "There's no question that we are seeing a substantial slowdown in spending," says Congressional Budget Office analyst Paul Van de Water. Adds Brookings Institution economist Barry P. Bosworth: "When you remove health care, federal programs are shrinking back to a share of the economy we haven't seen in 30 years."

Have President Clinton and his Democratic colleagues in Congress suddenly gotten budget-cutting religion? Not quite. Rather, they are largely the beneficiaries of trends, some years in the making, that may finally help tame the deficit monster. The thrift cleanup is largely complete. Defense spending is still sliding. Low inflation is trimming cost-of-living adjustments in Social Security and other indexed benefits. Falling interest rates are saving the Treasury billions of dollars in debt service. And the much-maligned 1990 deficit-reduction deal between President Bush and Congress is restraining growth in domestic discretionary spending.

As a result, the near-term budget picture is surprisingly bright. The CBO projects that total spending will rise 4.3% a year through 1998, just about one p centage point faster than expected inf tion. That would allow federal spendi to fall from 23% of gross domestic pr uct now to just under 22%, the low level since 1979. Combined with tax creases and normal growth in revenu spending restraint should trim the de cit from a record $290 billion in 1992 $200 billion by 1998 (chart).

ROSIER PICTURE. The deficit outlook remarkably improved from Clinto forecast in February, when he unveil his budget plan. At the time, the Pre dent predicted a record $332 billion de cit for 1993. Now, it looks like the r ink will come in at about $260 billio Smaller deficits should help keep int est rates low and free funds for prod tivity-enhancing private investment.

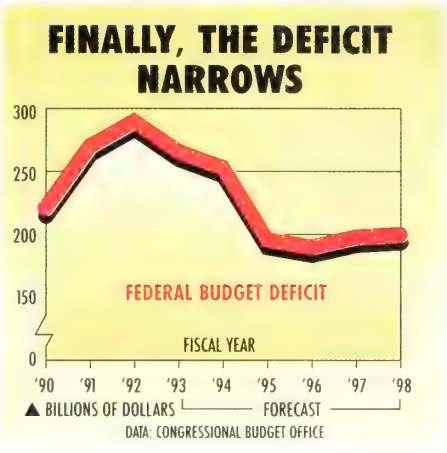
Of course, not all the trends a cheery—or necessarily permaner Growth in health-care expenditure

gh slowing, remains at 10%. If current trends continue, Medicare and Medicaid will eat up 22¢ of every federal dollar in 1998 vs. 15¢ today. Clinton's health-reform plan is designed to check the rise, but even experts can't say how effective it will be. Medical costs are expected to go on rising considerably faster than overall spending. Still, says Alice M. Rivlin, deputy director of the Office of Management & Budget: "The worst of the increases in Medicare and Medicaid may be behind us."

In any event, health costs are about the only item going up very much. In the past, both congressional and Administration budget mavens have consistently underestimated spending and the resulting deficits. This time both the CBO and the OMB say that if anything, their projections could be too pessimistic. A year ago, the CBO predicted that spending for 1993 would top $1.5 trillion; the latest forecast outlays at $1.48 trillion. At this rate it looks like spending will come in at least over $1.4 trillion.

There's no reason the favorable budget trends shouldn't continue. Inflation is stable at about 3%, and long-term interest rates, down a full percentage point since last spring, are expected to remain low. That, in turn, is lowering the cost of the savings and loan association bailout by returning some thrifts to solvency and helping to firm up prices of the real estate assets the government has taken from portfolio of failed S&Ls.

The government now figures its total cost for the thrift debacle will come in at around $150 billion, down from the $200 billion estimated only 12 to 18 months ago. Bert Ely, a financial consultant in Alexandria, Va., says that with thrifts continuing to get healthier in the current economic climate, the federal government's remaining costs for cleaning up the crisis are no more than $15 billion to $20 billion. At the same time, defense spending should ease to $290 billion from the 1989 peak of $304 billion.



The Clintonites, for their part, vow to enforce spending caps on the discretionary programs that account for nearly 40% of outlays. First imposed under the 1990 budget accord, the caps have been toughened to require a flat ceiling of $547 billion a year through 1998. "Those caps will hold," insists Assistant Treasury Secretary Alicia H. Munnell.

Such assertions mark a philosophical turnaround for Democrats, who never liked the spending caps that Republicans were continually urging on them. Mandatory ceilings were attacked as bad budget policy on the grounds that arbitrary limits reduced Congress' discretion to fund programs based on public needs. In fact, Congress hates caps because they restrain members from distributing election-year pork. The new attitude of budgetary discipline also marks a recognition by Democrats that tax increases alone won't cut it; spending also has to be brought under control.

NEW AGENDA? This newfound determination to hold the line has Republicans worried that the spending numbers, while sweet, come a year too late. "Our biggest fear," says G. William Hoagland, Republican staff director of the Senate Budget Committee, "is that Clinton will try to take credit this fall for good results that stem from 1990, not his policies."

The larger concern, though, should be whether Clinton and Congress consider their budgetary diet a temporary fad or a permanent lifestyle change. "I'm skeptical," says Frederick Khedouri, a senior OMB official in the Reagan White House. "They have a spending agenda, and when the deficit picture starts getting better the pressure is off the system and people say, 'Let's go with this new program.' " If Clinton proves critics such as Khedouri wrong, then maybe he really is the same man who campaigned as a "new kind" of Democrat.

By Owen Ullmann in Washington

ILLO BY PHOTOGRAPHS BY CHRIS USHER P F CERO/SYGMA ALEXANDRA AVAKIAN CONTACT CHARTS BY ROB DOYLE BW

THE ADMINISTRATION

A DILEMMA CALLED RON BROWN

How long can Clinton afford to back his embattled Commerce chief?

Sept. 29 should have been Commerce Secretary Ronald H. Brown's day in the sun. After spending months putting his policy team together, Brown finally rolled out a high-visibility policy to promote U. S. exports (page 51). But instead of basking in the accomplishment, the Commerce chief found himself dogged by reports that a federal grand jury in Miami is probing allegations that he agreed to accept $700,000 to help lift the trade embargo against Vietnam.

BROWN MAY HAVE TO FACE A GRAND JURY

Brown's troubles are hardly good news for President Clinton. At the export-policy announcement, Clinton publicly defended the Commerce Secretary in the careful legalese that Presidents use to distance themselves from trouble: "I have no reason not to believe him."

REVISED ACCOUNT. Top White House aides worry about the political fallout from the affair. And they are riled by Brown's handling of the episode. Back in August, a Brown spokesman flatly denied reports that the Secretary had ever met with Nguyen Van Hao or any other Vietnamese businessman. But on Sept. 27, Brown's attorney confirmed three meetings: one before Brown was named to the Commerce job, one while he was awaiting confirmation, and a third in February. "It wasn't the most skillful PR on the part of the Commerce Dept.," says a top Clinton aide. Chief of Staff Thomas F. "Mack" McLarty III and Brown have discussed the matter regularly in recent weeks. The White House counsel's office is monitoring the grand jury probe.

Although Brown may weather the storm and ultimately be vindicated, the controversy couldn't come at a worse time for Clinton. Aides worry that it could hurt the President just when his approval ratings are up and his agenda is taking off. Clinton had promised a squeaky-clean government, free of the stain of Washington influence peddlers. The White House thought it had escaped the sort of scandals that tarnished previous Administrations and continue to plague Capitol Hill. Republican lawmakers already are making hay of the Brown investigation by calling for hearings and a special prosecutor.

The White House was looking to Brown, formerly a high-powered Washington lobbyist, to be a key salesman on Capitol Hill and among business leaders for two priority initiatives: health reform and the North American Free Trade Agreement. "At a time when Clinton is reaching out to business, Ron Brown is his ambassador," says Washington investment banker Wayne Berman, a Commerce official in the Bush Administration. "He is someone who will listen."

POLITICAL PICKLE. Although the investigation is sure to impede Brown's effectiveness, Clinton has little choice but to stick with his embattled aide. The President has begun to patch up relations with black Americans—ties that were badly damaged when he dropped his economic stimulus program and withdrew Lani Guinier's nomination for the Administration's top civil rights job. With Brown, "you've got a very popular figure in the black community and the black business Establishment," says Hanes Walters, chairman of the political science department at Howard University and adviser to Jesse Jackson. "If he doesn't stick by Ron Brown, it will be politically untenable for Bill Clinton."

For now, Clinton can only hope that his Commerce Secretary will be exonerated quickly. But Brown, a savvy Washington operator, knows the rules of disengagement all too well. If the probe drags on and he becomes a political liability, Clinton may be forced to cut its losses faster than you can say "export promotion."

By Susan B. Garland, with Lee Walczak and Richard S. Dunham in Washington

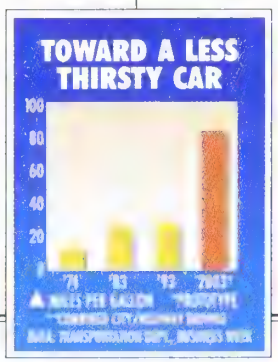
HERE COMES THE UNCLE SAM-MOBILE

On the campaign trail, Bill Clinton and Al Gore promised to promote America Inc. Uncle Sam, they said, would help industry nurture future technologies. In February, the White House announced a $17 billion plan to support everything from the "information superhighway" to advanced factory tools.

Much of that fell victim to budget-cutting. But the White House is starting to deliver on promises that don't require much money. On Sept. 15, it unveiled plans to promote the fiberoptic "superhighway." And on Sept. 29, Commerce Secretary Ronald H. Brown trumpeted a scheme to boost exports.

The plan that may best capture the public imagination is Clinton's partnership with the Big Three to produce a clean, fuel-miserly car. Also announced on Sept. 29, the program's 10-year goal is to as much as triple the mileage of a typical car (chart). That won't aid just auto makers, says White House science adviser John H. Gibbons: "If you look at air pollution, oil imports, [carbon dioxide] emissions, and foreign competition, there is a long list of public benefits that come from a breakthrough in automotive technology."

Detroit is delighted. "By working together, government and industry offer the best chance of achieving the necessary breakthroughs," says Ford Motor Co. CEO Harold A. Poling. Instead of cash, Clinton is offering research help in fields such as lightweight materials and computer-aided design. And the White House has agreed not to push hard for big increases in mandated fuel economy.



Free-marketers are dubious. The idea that government can succeed where industry has not "is almost beyond belief," scoffs Cato Institute economist William A. Niskanen. But others are hopeful. A high-mileage car "is a good example of where government and industry can do something jointly," says former National Science Foundation Director Erich Bloch. With little new money involved, it's industrial policy on the cheap.

By John Carey and Mark Beth Regan in Washington

CLINTON: THE RETURN OF THE COMEBACK KID

The image stirred flickers of recognition for millions of TV viewers. The gravelly voiced figure with the bulbous nose held up a credit card, and instantly Americans thought: "Don't leave home without it." Karl Malden, perhaps? No, the pitchman was Bill Clinton, hawking health reform in his Sept. 22 address to Congress. That item in his hand was the Administration's new "health security card," Clinton's way of dramatizing the goal of lifetime medical care for all at a cost of . . . um, we'll bill you later.

Propelled by one of his finest speeches, Clinton has done more than give his campaign for universal health coverage a stirring launch. By skillfully harnessing public revulsion for the current system, he has made the status quo unacceptable—assuring that big changes will be enacted next year. Indeed, the Senate Republicans who humbled Clinton during the budget wars are now scrambling to meld their managed-competition plans with his program.

Washington, city of long knives and short memories, now is engaged in a new round of Clinton revisionism. The same politician who was declared terminally inept this spring is being hailed as a master of consensus building. Both views, of course, are hyped. But there's no denying that Clinton is in the midst of another of his periodic up-from-the-ashes revivals.

GO GLITTERATI. After languishing for months, Clinton's approval rating has hit 50% in opinion polls (chart). That's still low for a modern President, but it has given Clinton more clout on Capitol Hill than he has had since February.

In his efforts to sell health reform, Clinton has rediscovered the citizens' forums that showcase his gift for empathy with the downtrodden. With televised town meetings and sit-downs in diners, Clinton also has reestablished a gut-level connection to working Americans that was lost during his early days of partying with the Hollywood glitterati and fumbling such issues as gays in the military. Says GOP pollster William McInturff: "Clinton has conveyed an emotional commitment to reform that translated well to people. That's helping him win back [Reagan] Democrats and independents."

In the view of ebullient Clintonites, the turnaround isn't accidental. In focus groups, "when you ask whether Clinton has a vision or cares about 'people like me,' all the numbers are up," says top White House strategist George R. Stephanopoulos. "That shows he's getting credit for at least attacking festering problems."

Clinton also has helped himself with his choice of issues. Case in point: His conversion from navel-gazer to vocal backer of the North American Free Trade Agreement. Politically, the issue is difficult. The AFL-CIO uses opposition to NAFTA as a litmus test for its Hill supporters. Worse, Ross Perot is waging an effective campaign to bury the pact in a storm of populist innuendo.

Despite aides' fears that a trade fight would divert energy from health reform, Clinton has begun to make an impassioned case for expanded trade. The decision seems economically sound. But there's a political benefit, as well. By allying himself with free-trade Republicans, Clinton has laid the groundwork for future bipartisan alliances on such key "New Democratic" issues as crime and welfare reform.

"ACTIVIST." A less difficult choice for Clinton was his embrace of Vice-President Al Gore's National Performance Review. Clinton is fascinated by ideas for "reinventing government." Although the Gore effort began modestly, with the President's cheerleading, it grew into an ambitious project that came up with sensible proposals for cutting red tape—thereby reinforcing Clinton's reformist credentials.

"When you start to put the budget, NAFTA, health-care, and other reform efforts togther, the President gains credibility," says Thomas E. Mann, director of government studies at the Brookings Institution. "The public sees an activist Presidency coping with difficult problems."

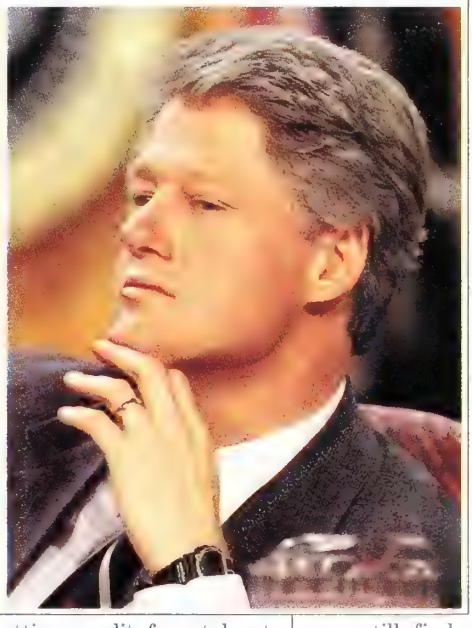
Of course, critics can still find plenty of bones to pick with Clinton's approach to the issues. A health plan that relies on phantom savings risks sowing public cynicism. Clinton's 11th-hour conversion to NAFTA may have come too late to overcome antitreaty momentum, exposing him to a global embarrassment if the pact goes down. And one wonders what will become of Gore's reinventing-government blueprint now that the President is creating a new bureaucracy for health care.

Still, by sticking with his goal of fundamental change, Clinton has emerged from his trials scalded but stronger. In the process, he has learned a lesson that eluded George Bush: When it comes to Presidential leadership, trying and failing to tackle tough issues is nowhere as bad as failing to try at all.

Senior Editor Walczak is BUSINESS WEEK's Washington bureau chief

MR. POPULARITY

Sample of 800 adults asked to rate President Clinton's performance. Percent who say they:



The same politician who was declared inept this spring is now hailed as a master consensus builder

CORPORATE PROFITS

NOSING UP: SOME BIG AIRLINES MAY BE IN THE BLACK

A PROFIT SURPRISE IN THE HOMESTRETCH?

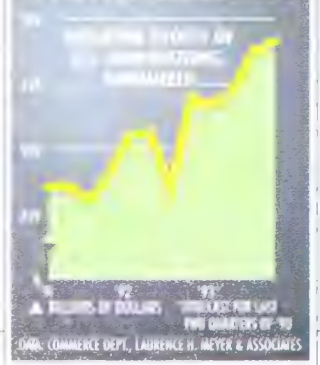
The economy feels sluggish, but third-quarter earnings could jump 29%

It has been a pretty uninspiring year for the economy. Gloomy, even. Economic growth remains stuck at 2%. Exports are weak. Nonfarm companies have created 1.2 million new jobs, but many of the country's largest companies continue to slash payrolls. Polls of corporate executives reveal gathering gloom about the future, and a Conference Board survey shows that consumers are less likely to buy a car, home, or major appliance now than they were in August. Consumer confidence remains stuck "at recessionary levels," declares economist Lacy H. Hunt II of HSBC Holdings PLC.

Now, the good news: U. S. corporate operating profits should hit $474 billion in the third quarter, a 29% jump over 1992 (chart). A few carriers in the long-grounded airline industry, led by American Airlines Inc. and United Airlines Inc., will probably climb into the black for the second straight quarter. Big manufacturers, such as construction-equipment giant Caterpillar, General Electric, and Chrysler, are also expected to perform well.

That doesn't mean there's a boom around the corner: Simply put, the profit numbers aren't as good as they look. Many companies will report higher income only because their 1992 results were so anemic. At others, better numbers have come largely from cutbacks—not from demand growth. A string of warnings about disappointing earnings from the likes of Warner-Lambert, Anheuser-Busch, and Greyhound Lines confirms the absence of any big turnaround. "There's a lousy consumer-product market," grouses Executive Vice-President Jerry E. Ritter of Anheuser, which announced on Sept. 22 that it will take a $565 million restructuring charge against third-quarter earnings.

That's why American Airlines Chief Financial Officer Michael J. Durham is jittery. With fare prices firmer and costs dropping, American should post net income of $89 million, according to industry analyst Michael W. Derchin of NatWest Securities Corp. Nonetheless, Durham laments the tenuous business environment is dampening results: "White-collar workers are concerned about their jobs; businesses are concerned about profitability



That said, expectations are even wor in Europe and Japan, and multinationa with too much exposure in those regio are faring poorly. Third-quarter profi at Ford Motor Co., pegged at $21 milli by Wertheim Schroder & Co. auto an lyst John Casesa, are being dragg down by results in Europe. Econom bellwether 3M Co. should post earnin slightly below last year's $324 millio says Prudential Securities Inc. analy B. Alex Henderson, mainly because of 6% negative currency translation.

Indeed, the companies with the healt iest gains tend to be posting the squarely in the U. S. Caterpillar In with double-digit domestic sales i creases, could post net income of $ million for the qua ter, up from $5 m lion last year, sa Ingalls & Synder a alyst Alexand Blanton. Chrysl Corp., which has less overseas exposu than its Detroit rivals, will easily ou pace them with net income of $190 m lion. While that's down $90 million fro the year prior, says Wertheim analy Casesa, Chrysler spent much of t quarter retooling assembly lines. T wave of refinancings in the U. S. also boosting some financial-service comp nies: Analysts expect municipal-bond i surer MBIA Inc., for one, to post net i come $56.7 million, up from $48.6 milli last year.

FEEL THE BOUNCE. High tech? More of mixed bag. Dean Witter Reynolds In industry analyst Eugene Glazer predic that Compaq Computer Corp. will po earnings of $88 million, up from $49 m lion last year, on a 50% sales increase, $1.6 billion. Similarly, despite declini prices, software companies with h products should feel the bounce fro increased computer sales. Data-ba software maker Oracle Corp., for i stance, blew away analyst predictions Sept. 21, when it announced that ear ings had quadrupled, to $37.4 million revenues of $398 million—a 30% hike.

But personal-computer price wa should hammer the bottom lines of co puter companies that lack volume. I deed, prices in a host of industries, i cluding tobacco and consumer product are tumbling. So there's still plenty keep pessimists up at night. Says Ha nischfeger Industries Chief Executi Jeffery T. Grade: "There's nothing the horizon to make it look like a gre '94." Great, no. How about settling f "not bad"?

By Kevin Kelly in Chicago, with T Smart in New Haven, Richard Brandt San Francisco, and bureau reports

)T A GHOST OF A CHANCE ' CHRISTMAS PAST

;umer anxiety augurs dispiriting holiday retail sales

on't ask Jeanette Guam how she feels about Christmas shopping this year. Guam, a 37-year-old ;al administrator in Boise, Idaho, to love to lavish gifts on her fam- ut Guam's sister just lost her job, ;uam fears she is facing a pay cut. ıring the holidays this year, she's ıg her purchases to just one gift elative. "I would love to splurge," Guam,"but I'm trying to save."

ısumers will hit the malls en masse nonth or so to begin their ıy shopping. But spooked e prospect of higher taxes, ısed health-care costs, and kluster economy, they're ing to avoid huge pur- s and do without frivolous ing-stuffers. The result: l sales will rise just 3.5% Christmas, down from a increase last year, predicts Barnard, president of ard's Retailing Consulting p in New York (chart).

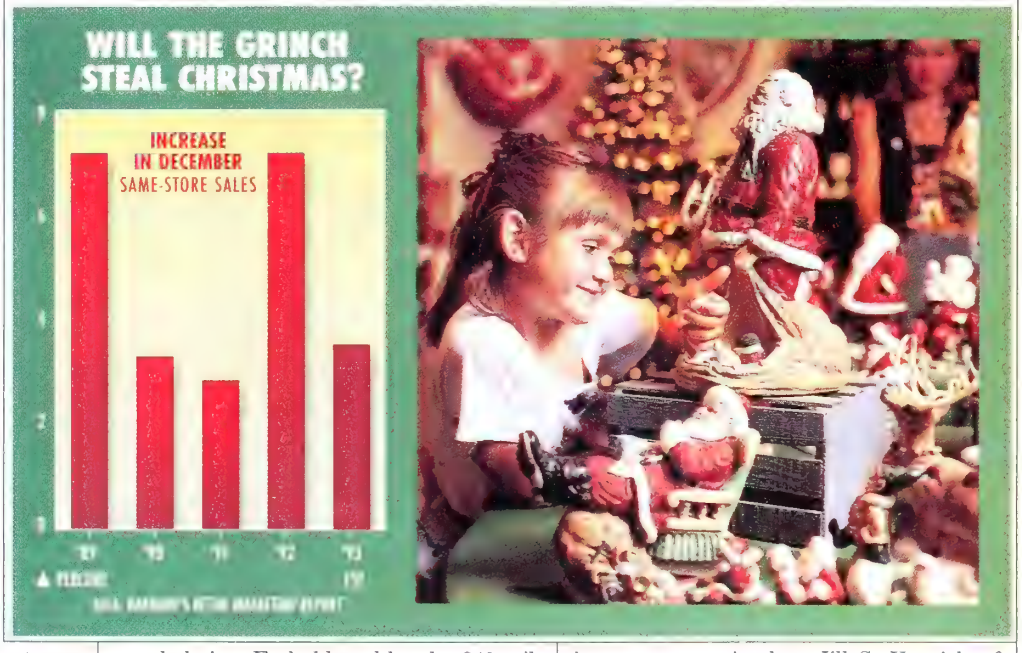
)omy tidings, indeed, for ers who depend on the n for some 40% of reve- A weak Christmas season pected to limit operating s at specialty stores to a ain from 1992, and hold tment store profits flat. unters should fare better a projected 4% gain.

ITORS. There are some ve signs for the nation's stores. Conference Board reported that con- r confidence inched up to 62.6 in mber, from 59.3 in August. Person- ome rose 1.8% in July from a year and consumer spending jumped in the same period. But consumer rose 8.11% in July, says Carl Steidt- , chief economist for Management ons—and those maxed-out credit won't spark holiday shopping.

s year's back-to-school sales, usual- air indicator of what Christmas will , show why specialty apparel stores ably will feel more of a pinch than merchants and discounters. Same- sales fell at The Gap, The Limited, Ann Taylor Stores during August. reason for the slowdown: Consum- ave become more budget-conscious fashion-conscious, says Janet Man- , a retail analyst at Burnham Secu- Inc. The Gap may have fallen vic- tim to inexpensive imitators. And analysts believe The Limited and Ann Taylor have been hurt by a shift in taste among professional women, many with young children, who are redirecting clothing budgets from office wear to clothes for around the house.

The trend spells opportunity for Sears, Roebuck & Co. Arthur Martinez, Sears's merchandise chairman, is trying to position the beleaguered store as a chic and cheap alternative to more expensive apparel chains. Emboldened by the $40 million women's apparel advertising campaign that Sears launched in September, Martinez vows: "I believe we can outperform the industry during the fourth quarter. I will better whatever the industry produces."

Even so, Sears admits to being "cautious and conservative" in its purchasing for Christmas. Likewise, a J. C. Penney Co. spokesman says the retailer will carry only enough inventory to cover a projected "midsingle-digit" sales gain.



> Specialty apparel stores are likely to feel more of a pinch than mass merchandisers and discounters

Among the items it expects to sell out: cozy Yarnworks cardigans and pullover sweaters, both at $39.99.

Allen I. Questrom, Federated Department Stores Inc.'s chief executive, remains optimistic. This holiday season, Federated will agressively market housewares. The company's customers, he says, are "nesting" and just as interested in dressing their homes as themselves. That's why Federated's chains—among them Bloomingdales, Abraham & Straus, and Rich's—are loading up on such items as Calphalon's nonstick cookware, wooden picture frames, and hand-stitched quilts, as well as luxurious $1500 leather couches. Other chains are exploiting the at-home trend, too. Home Depot Inc., the $7.1 billion home-fix-up chain, is launching a campaign to push power tools as ideal Christmas gifts.

Perhaps Home Depot should start selling toys, too. Analyst Jill S. Krutick of Salomon Brothers Inc. estimates combined toy and video-game sales will jump 15% this season, which could lead to gains for Toys 'R' Us Inc. and Kmart Corp. Toys 'R' Us will have the added benefit of decreased competition: Child World Inc. and Lionel Corp.'s Kiddie City have gone out of business.

But the real Christmas bright spot is home shopping. QVC Network Inc., currently embroiled in its bid to acquire Paramount Communications Inc. (page 36), should post a sharp 21% earnings gain for the Christmas quarter, analysts say. Just more evidence that the consumers who want to spend money are the same people who increasingly want to stay at home. Ann Taylor, take note.

By Sunita Wadekar Bhargava in New York, with Kevin Kelly in Chicago, Stephanie Anderson Forest in Dallas, and bureau reports

TAKEOVERS

SUMNER REDSTONE GETS A LITTLE HELP FROM HIS FRIENDS

To make his Paramount bid fly, he's lining up deep-pocketed partners

Sumner M. Redstone may yet win Paramount Communications Inc. But the veteran dealmaker has learned a hard lesson in his first takeover battle of the 1990s: To stay in this dance, you gotta have a partner.

On Sept. 29, Redstone announced that Blockbuster Entertainment Corp. will invest $600 million in Viacom Inc., the cable and entertainment company of which he is chairman and 76% owner. Media watchers figure he will use the cash to sweeten his $7.6 billion offer for Paramount. Indeed, Blockbuster Chairman H. Wayne Huizenga has an option to reduce his investment to $300 million if the Paramount deal founders.

SAVED BY BELL? Viacom has felt pressure to come up with a higher bid since Sept. 20, when QVC Network Inc.'s Barry Diller raised the ante to $9.5 billion. Paramount directors will consider Diller's bid after he supplies proof of financing, which his bankers say he is lining up with no trouble. From the start, he has had two well-heeled backers: cable-TV titan John C. Malone and Comcast Corp. President Brian L. Roberts.

In the face of Diller's aggressive bid, Redstone has been rounding up financial help from Blockbuster and others (table). Executives familiar with the talks say Redstone is close to lining up a second investment—this one with Southwestern Bell Corp. Like Blockbuster, the Baby Bell may kick in upwards of $600 million for convertible preferred shares in Viacom, which would carry over to Paramount Viacom. Sources say Redstone also has discussed equity stakes with Nynex Corp. and Ameritech Corp., which wouldn't comment on the reports. And cable operator Cox Enterprises Inc. has met with Redstone as well, say executives familiar with the talks.

Redstone won't disclose names. But he confirms Viacom is scouting several other deals: "Should we decide on another strategic alliance," he says, "the problem will be cutting down the amount of money they want to invest."

Such confidence, though, can't disguise a startling change in Redstone's strategy: After a career of financing deals with his own pocketbook, including the 1987 takeover of Viacom, the 70-year-old tycoon is turning to others to salvage the Paramount deal. Says one executive close to Viacom: "In order to make another bid without his stock going down, he needed a partner."

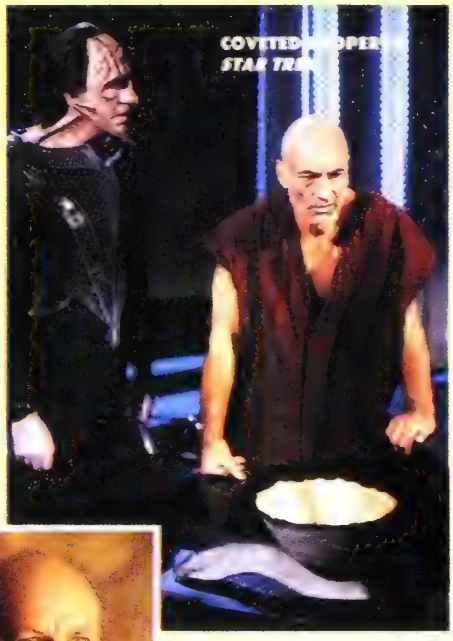
Indeed, skeptical investors have been the Achilles' heel in Redstone's effort to snare Paramount. Because about 86% of his offer comes in the form of Viacom shares, its value to Paramount shareholders has fallen from $8.2 billion to $7.6 billion as the stock has eroded. The stock continued to swoon on the Sept. 29 news of Blockbuster's investment: Shareholders saw the deal as falling far short of the nearly $2.2 billion needed to close the gap with Diller, and drove down Viacom stock an additional 1½ points, to 59½. By contrast, QVC's stock has risen steadily, boosting Diller's offer from $9.5 billion to $9.8 billion.

Linking up with partners has rewards—and big risks—for Redstone. On one hand, he can claim the merger offers three vital distribution channels for Paramount programs such as *Star Trek*: Viacom's cable networks, Blockbuster's home-video stores, and the movie theaters owned by Redstone's private company, National Amusements Inc. With a Southwestern Bell deal, he could claim a fourth: telephone lines.

UPSTAGED. Huizenga also adds a dynamic presence to Redstone's management team, which has been upstaged by the magnetic Diller. Although he will not control any of Viacom's voting shares, Huizenga will have a seat on the board. And he clearly wants a role in the merged company: "If the Paramount transaction is done, then it's really a great deal for Blockbuster," he says.

Still, Huizenga is a potent addition to an already combustible brew. Insiders say Redstone and Paramount CEO Martin S. Davis have locked horns on how to sell the merger. And Huizenga may have his own agenda: Sources close to QVC say he offered to be part of Diller's bid. But Diller declined because Huizenga wanted exclusive home-video rights to Paramount movies. Huizenga flatly denies this, and says his agreement with Viacom has no such provision. With hard-chargers like this at his side, Redstone's solo act is turning into a complicated ensemble.

By Mark Landler in New York, with Ronald Grover in Los Angeles and Paul DeGeorge in Miami



FIRST UP: HUIZENGA

REDSTONE'S REINFORCEMENTS

BLOCKBUSTER ENTERTAINMENT

1992 OPERATING CASH FLOW	$407 MILLION
TOTAL DEBT	$291 MILLION*
VIACOM INVESTMENT	$600 MILLION

World's largest home video retailer with 3,258 stores. Also operates 252 retail music stores. And will soon own 70.5% of Spelling Entertainment Group, which recently acquired Republic Pictures Inc.

SOUTHWESTERN BELL

1992 OPERATING CASH FLOW	$3.61 BILLION
TOTAL DEBT	$5.54 BILLION
VIACOM INVESTMENT	UNDER NEGOTIATION

Has 9.9 million phone customers in five Southwestern states. Recently acquired cable system outside Washington, D.C. Viacom is also negotiating with other Baby Bells, as well as cable operator Cox Enterprises

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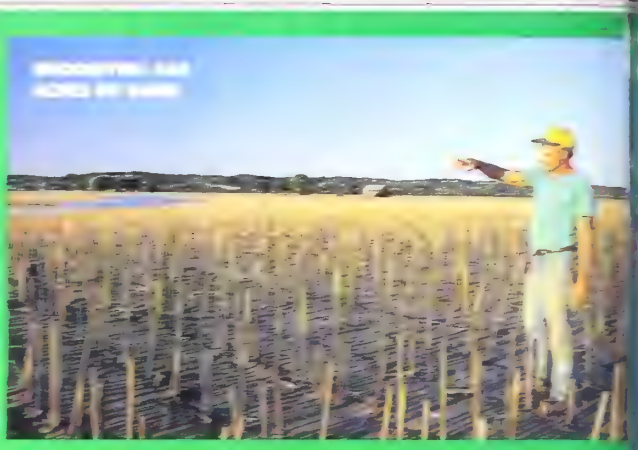

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COMPUTERS

THE GAMES PEOPLE PLAY IN THE OFFICE

As computer amusements eat into productivity, companies crack down

Wes Cherry was just an intern at Microsoft Corp. in 1989 when he wrote a little software program replicating the solitaire card game. He had no idea what a fuss it would cause. Designed as a diversion to make people more comfortable using Microsoft's Windows software, Solitaire has been packaged with nearly every one of the 50 million copies of Windows sold since 1990. The results have been impressive, in a way. "People waste hours and hours on it," says Cherry, now a full-time Microsoft programmer who hasn't made a dime from his creation. "I like to think that I'm partly responsible for the recession."

There are no hard-and-fast numbers estimating how much computer games cost U.S. companies in lost productivity. But some of the country's biggest employers are worried enough about electronic gold-bricking to take action: Boeing, Electronic Data Systems, and the Defense Dept., among others, have decreed formal "no games" policies; some have even gone so far as to remove Solitaire and all other games from corporate PCs.

STRESS RELIEF. Most companies have no specific policies against games, but it's clear that many office workers are using their PCs for much more than drafting memos or massaging spreadsheets. In a recent survey conducted by *Information Week*, a trade magazine, 90% of 200 respondents to a questionnaire said they have access to computer games in the workplace. While 28% said they almost never play games at work, 42% said they play several times a week (charts).

At Garber Travel Service Inc., the problem got out of hand. Before this year, the 500 administrative employees at the nationwide travel agency, based in Boston, simply were trusted not to play during office hours. But when Rock Blanco, director of information services, discovered several of them wasting away the day, he cracked down. "The PC is for productivity," says Blanco. "If you let people play games on them, you may as well let them insert a TV-reception board so they can watch *The Beverly Hillbillies*." Garber has removed all games—including Solitaire—from its 500 PCs.

Some employers actually promote games in the office to reduce stress and increase productivity. O. K., so Citicorp, DuPont Co., and their ilk aren't among them. But *Pollstar* magazine, a music-trade publication in Fresno, Calif., is. "I think it's a great stress reliever," says *Pollstar*'s Ivan W. Luk, a systems ministrator. Paul Dawson, a progr mer at Professional Computer Syst in Littleton, Colo., agrees. He admit switching on the games between jects. His favorite: Wolfenstein 3D, action game set during World War "If you're mad at someone, you can shoot a few German guards," he sa

Office workers, such as Dawson, resent an enormous untapped ma for game makers. Microsoft now s Entertainment Packs—which incl such favorite arcade games as As oids, Space Invaders, and Centipede- add-on modules to its Windows s ware. Although intended for home enthusiasts, Entertainment Packs h been a big hit with office workers cause the familiar video games of past are simple to play.

THE BOSS KEY. Some of the hottest-ing titles from computer-game make erra Online Inc. are being package the Take A Break! series, which a squarely at the 9-to-5 crowd. Its re Take A Break! Pinball runs on a PC Windows software and r ics pinball machines of y The Coarsegold (Calif.) c pany says it's marketing software as something to while talking on the phon waiting for the next projec work. Its instruction boo tells workers that playing game will "keep your pro tivity and sanity in check.

Take A Break! Pinball another useful feature touch of two keys on the board quickly switches player back to the Wind screen without ending game. This feature, called "boss key," was popular by Spectrum Holobyte which distributes the ac tive Tetris. Tetris play know that pressing one will transform their fun in mock spreadsheet.

Game-playing at work soon become a team activ Spectrum Holobyte's Fa 3.0 can run on a No NetWare network so that to six players can comp against one another. market leader Electronic Inc. is considering deve ment of a similar setup fo flight-simulator game. so much fun happening on network, who needs to h around the water cooler?

By Paul M. Eng and Eve Schwartz in New York

CHERRY DESIGNED MICROSOFT'S SOLITAIRE

'I SWEAR, ONLY ON MY LUNCH BREAK...'

A fax survey of 200 information system managers yielded these results:

HOW OFTEN ARE COMPUTER GAMES PLAYED AT YOUR OFFICE?

DO YOU HAVE ACCESS TO COMPUTER GAMES?

DO COMPUTER GAMES HURT PRODUCTIVITY?

DATA *INFORMATION WEEK*

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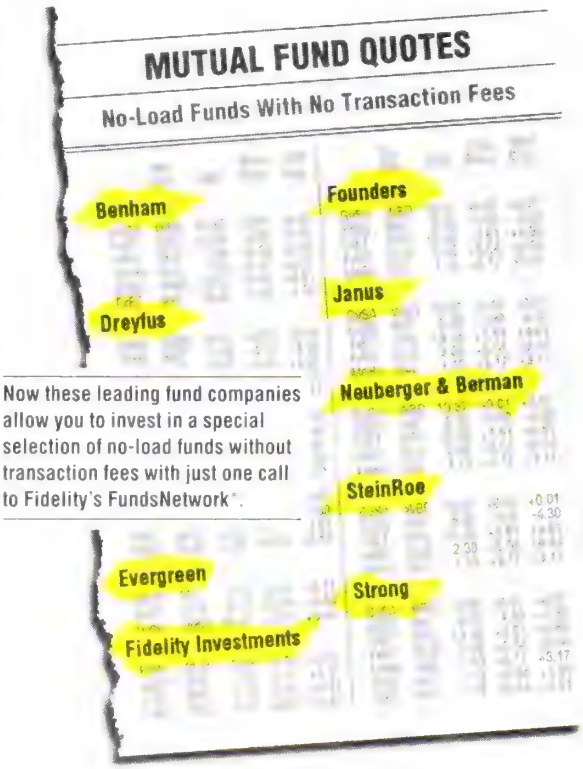

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cal pricing and consump-
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the proposed tax:

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OMING	609
AS	584
UTH DAKOTA	574
ERAGE	$459
LOWEST	
NNESOTA	400
LAHOMA	382
NNESSEE	379
ZONA	368

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steel makers—that
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age due to be unveiled on
30 will require $10 bil-
in extra funding from
companies over the next
years, plus $1.8 billion in
er premiums for the gov-
ent's pension insurance
. The goal: to wipe out an
ated $45 billion shortfall
009.

LIE FAY'S CEO L STAY ON

n Pomerantz, CEO of ap-
l maker Leslie Fay, will
his job. This even after
audit committee an-
nounced on Sept. 29 that because of "accounting irregularities," the company will restate three years of profits as an $81 million pretax loss. Leslie Fay's CFO left in March, and President Michael Babcock will take over most of Pomerantz' operating duties. Still, some on Seventh Avenue think that Pomerantz, whose father founded Leslie Fay, should find a graceful way to step aside. Says New York retail consultant Alan Millstein: "For the board to maintain Pomerantz' presence is an embarrassment."

SOFTWARE SALVATION FOR APPLE?

▸ Apple Computer will unveil new operating-system software on Oct. 4. Called System 7 Pro, the new product makes it easier for Macintosh users to customize software and manipulate video, sound, and animation while improving their ability to share documents over a network.

It also may help Apple lift its sagging profits. The computer maker has slashed Mac prices 26% since June, putting the squeeze on profits. That makes software sales, which have fat profit margins, critical. Apple estimates "many millions" of Mac users will buy System 7 Pro but declined to say what it will mean for the bottom line.

THE PERILS OF PAUL

PAUL: TWO TRIALS

On Sept. 28, the New York law firm of Paul, Weiss, Rifkind, Wharton & Garrison agreed to pay $45 million to settle charges that its work for David Paul, former chairman of CenTrust Savings Bank, led to one of the costliest savings and loan failures in history. Next, it's Paul's turn: On Oct. 4, the government will begin the first of two criminal trials against him.

Prosecutors plan to keep their case simple, relying on Paul's alleged greed, not CenTrust's byzantine financial deals, to land a conviction. Their case likely will be centered on $3.2 million in bank funds Paul paid to interior decorators, electricians, and plumbers who worked on his two residences and 95-foot yacht. In his defense, Paul likely will argue that CenTrust's failure was the fault of overzealous regulators, a contradictory Congress, and the 1989 financial reform law.

Paul's second trial is scheduled for 1994. Then, prosecutors will outline complex junk-bond deals carried out by CenTrust. They won't try to prove that the deals were illegal. Rather, they hope to show that Paul and two other defendants altered records and lied about transactions. Neither of Paul's trials will answer two big questions: Why did Centrust fail? And how come taxpayers got stuck with the $1.7 billion tab?

P&G GETS DEEPER INTO DRUGS

▸ The pharmaceutical industry faces troubled times, but that's not stopping Procter & Gamble. The consumer-products giant, already a major force in over-the-counter drugs, long has been interested in building its prescription drug business. On Sept. 28, it agreed to buy an Italian subsidiary of SmithKline Beecham, adding five drugs with sales of $40 million and 125 sales reps. Is a bigger acquisition in the works? Chairman Edwin Artzt sidestepped that question in July.

THIS PRICE HIKE HERTZ CORPORATE RENTERS

▸ The second big rental-car price hike in as many years may soon start driving corporate renters elsewhere. Hertz announced on Sept. 28 that it will raise prices in major cities by 12%, and other rental companies quickly followed suit. The upshot? On average, it will cost $5 a day or $20 a week more to rent a car.

The rental giants are trying to shore up margins lost when the Big Three auto makers stopped subsidizing fleet purchases in 1992. But travel experts say the increase may prompt business and vacation renters to drive their own cars.

TOP TO BOTTOM: PHOTOGRAPH BY TIM CHAPMAN/MIAMI HERALD; SILVER MARK; ARTHUR; BY BILL SHORR; STAR U.F.S.

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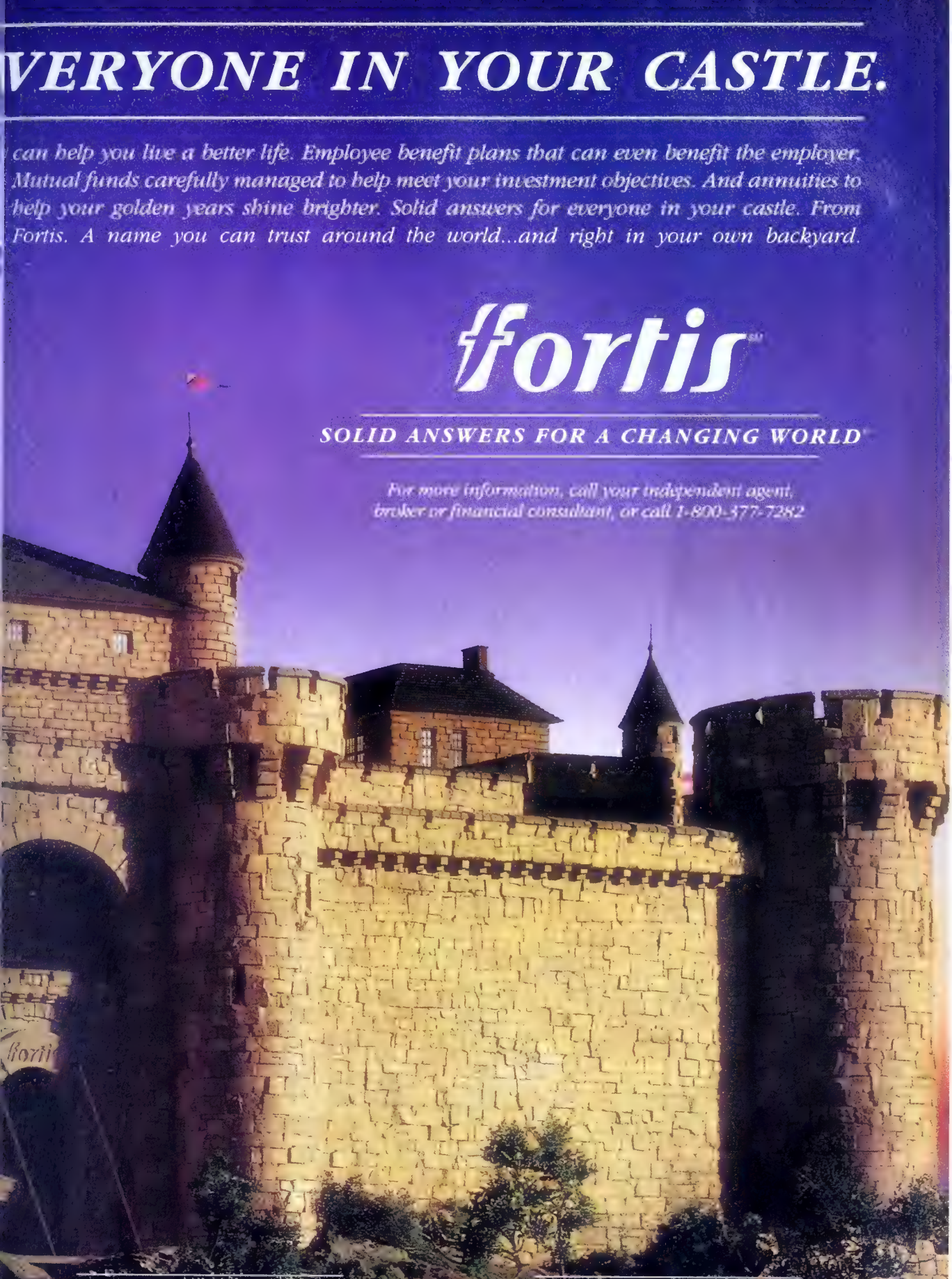

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Canon

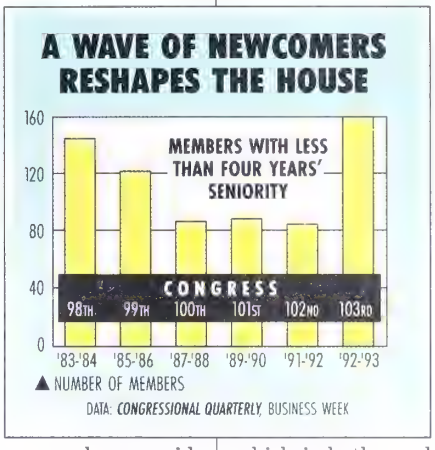
EDITED BY STEPHEN H. WILDSTROM

WASHINGTON IS BECOMING A CITY OF AMATEURS

There's a chill wind blowing across Capitol Hill these days, and it's not just the change of seasons. Senators and representatives are looking at polls and deciding maybe this term ought to be their last. That should uce another big wave of freshmen in the next Congress, ›p of this year's crop of 117 House and 13 Senate newcom- And the influx of first-termers will likely further erode power of party leaders and committee chairmen—and, aps, create some room for fresh ideas.

ertainly, the early signs bode ill for incumbents. A recent ıp Poll found that lawmakers have ed below even lawyers and talk-show s in public esteem. A recent Demo- c poll shows three-term Senator Orrin Hatch (R-Utah) trailing a possible ocratic opponent in 1994. In Wiscon- Democratic Senator Herb Kohl was idered a shoo-in just six months ago. a Republican poll in mid-September d that only 37% would vote for Kohl, e 40% preferred someone new.

THE RUSH? Facing even grimmer bers from home, Senate Banking mittee Chairman Donald W. Riegle D-Mich.) on Sept. 28 became the sixth tor to say he won't run next year. In House, 12 members have already an- ıced their departures, an unusually large number consid- g that there's more than a year to go before the election. hy the rush to the door? Stuart Rothenberg, editor of the *enberg Political Report*, says several retirees, including dal-plagued Senators Dennis DeConcini (D-Ariz.), David F. enberger (R-Minn.), and Riegle, were "terminally ill, polit- y." Others, such as Senator John C. Danforth (R-Mo.) Representative Timothy J. Penny (D-Minn.), are "sick of institution," Rothenberg says. Facing voter hostility and list uprisings, incumbents "are grasping to find a meaning- eason to remain," says Democratic consultant Brian Lunde.



The coming campaign looks particularly grueling, and that will heighten the appeal of retirement. Polls have long found that voters liked their own representative even though they thought most members of Congress were bums. But a new survey by Public Opinion Strategies, a GOP firm, found that 54% of voters strongly agreed with the statement: "Congress isn't doing the job—and it is time for a change, even if it means voting against my congressman." Two years ago, only 38% wanted to dump their own lawmaker—and that anger scared nearly 90 incumbents into retirement and contributed to 37 defeats. "If incumbents believe that last year's turnover was just a short-term thing, they're in for a surprise," says Neil Newhouse, who conducted the survey.

Because many of the most vulnerable lawmakers saw the handwriting on the walls back home, the widely anticipated slaughter of incumbents didn't occur last year and, for the same reason, probably won't in 1994. Still, the effect on the institution is much the same. Nearly one-third of senators are first-termers, and 37% of House members took their seats in the past three years. After the next election, nearly half of Congress may have less than six years' seniority.

"Washington will be run by amateurs, which is both good and bad," says political scientist Darrell M. West of Brown University. "There will be fresh ideas and approaches that haven't been tried in the past." New members may overhaul hidebound procedures, but if recent experience is a guide, the partisan chasm between antitax Republican conservatives and an increasingly diverse crew of Democratic liberals will widen. That seems to be a risk the public is willing to take. While pressure for term-limit laws remains strong, voters are exercising a power they've always had—to scare the bums out.

By Richard S. Dunham

ITAL WRAPUP

[AS

he indictment of Senator Kay Bai- ley Hutchison (R-Tex.) has Lone r State Democrats dreaming about econd chance at the seat of former ıator Lloyd M. Bentsen. Texas Dem- atic fund-raisers have approached using & Urban Development Secre- y Henry G. Cisneros about making un for the Senate. If the party Es- lishment can't recruit the former ı Antonio mayor, either of two con- ssmen, Jim Chapman or Michael A. drews, could be the second choice. sinessman Richard Fisher, a former riser to Ross Perot, is also running. rmer State Treasurer Hutchison, who faces trial on abuse-of-office and evidence-tampering charges, beat appointed Democrat Bob Krueger in a special election. Her term will expire next year.

NAFTA

Despite the official opposition of the Congressional Black Caucus, the Administration is fighting to sell the North American Free Trade Agreement to African-American voters. It has recruited former Atlanta Mayor Andrew Young to give a series of pro-NAFTA speeches. And the Clintonites are meeting with black ministers and business leaders to promote the pact's job-creating potential.

REPUBLICANS

Think tanks are the last refuge of a party out of power. So the Republican National Committee is spinning off a tax-exempt institute to work on issues including health care, the environment, job creation, regulation, and defense. The goal of the new National Policy Forum is to promote consensus GOP positions. Initial funding comes from a loan from the RNC, but the new group plans to raise $4 million from corporations, trade associations, and foundations. Party Chairman Haley Barbour says the new organization does not plan to release the names of its donors.

THE JAPAN THAT'S SAYING NO

ITS TRADE NEGOTIATORS TALK TOUGH AND WARN OF LITTLE PROGRESS

It's a heavy burden that the new generation of leaders in the U.S. and Japan is shouldering: high expectations that they can ease the trade frictions which have plagued relations between their countries for years. Japanese Prime Minister Morihiro Hosokawa was elected to clean up the cozy business-government relationship that produced both widespread corruption and closed markets. President Bill Clinton has been insisting since his election that Tokyo must soon make measurable progress in reducing its $50 billion trade surplus with the U.S. So when the two leaders met for the first time in New York on Sept. 27, there was none of the tense sparring that marked Clinton's encounter with then Prime Minister Kiichi Miyazawa in April. Both new leaders, it seemed, were committed to change.

But as negotiators gear up for a new round of trade talks, it's becoming clear that "change" doesn't mean the same thing on both sides of the Pacific. In Japan, the new government will focus first and foremost on political reform. Until that's accomplished, Hosokawa will resist making the kind of trade concessions Washington is demanding. Just as he has adopted a more forceful and energetic style for the television generation, so too is he determined to end the [illegible] in which Japanese Prime Ministers o[illegible] political gifts to U.S. Presidents. [illegible] of which will vastly complicate the ne[illegible] tiations to draft new trade agreeme[illegible] that got under way in Hawaii [illegible] Sept. 19.

BIG PLANS. That means Clinton, fr[illegible] from victories on the home front and [illegible] the Mideast, is running into earlier a[illegible] tougher-than-expected problems in co[illegible] ing to grips with Japan. Hopes amo[illegible] the Clintonites for significant tra[illegible]

The strong yen and Japan's slowdown mak[illegible] it hard for Prime Minister Hosokawa to accept U.S. demands for open markets—even for produce such as apples

THE U.S. TRADE DEFICIT WITH JAPAN IS WIDENI[illegible]

ILLUSTRATION PHOTOGRAPHS BY NAJLAH FEANNY-SARA FAUL VAN RIESEN/BLACK STAR. CHART BY ARTHUR EVES/BW

gress by January have faded. Pri-ely, White House officials worry that rious impasse could unleash protec-ist pressures in Congress. "I'm afraid might have set the bar too high," s one senior Clinton trade adviser. stration on trade also will focus new rgy on Clinton's industrial policy and le-promotion efforts (page 32).

Vashington's trade plans certainly e ambitious. Administration officials eved they could force Japan to agree rim its global current-account sur-s from 4% of gross domestic product bout 2%. In the framework for talks mered out in Tokyo in July, the Jap-se wouldn't accept specific numbers agreed to make a "highly signifi-t" reduction in the surplus, which year is set to top 1992's record 7.5 billion. The Clintonites also be-ed they could arm-twist the Japa-e into accepting numerical targets measuring progress in such specific as as autos, auto parts, and super-puters.

But Japan's economy remains mired a persistent slump, and corporate fits are getting hammered by the strong yen. Tokyo is in no mood to expose its manufacturers to a wave of imports. Suddenly, the goal the U. S. had in mind looks impossible. Indeed, the U. S.-Japan trade imbalance, spurred by the yen's high value, could reach $52 billion. And it may continue to rise in 1994. That comes at a time when U. S. export growth seems to be running out of gas, and imports are emerging as a drag on U. S. economic growth.

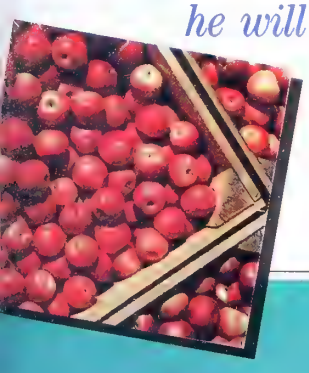
Tokyo doesn't seem inclined to help, despite the dramatic political change that culminated in the ouster of the Liberal Democratic Party and the victory of Hosokawa's seven-party coalition. The Japanese have cut interest rates and introduced a mild new stimulus package, both sought by the U. S. to spur growth and pump up imports. But the government doesn't seem willing to take any bigger steps, such as cutting taxes. Career bureaucrats in the tightfisted Finance Ministry will agree only to an income-tax reduction that can be recouped later with a higher sales tax. "Things have changed radically, but not when it comes to macroeconomic policy," says Masaru Yoshitomi, chair of the Wharton School's U. S.-Japan Management Studies Center.

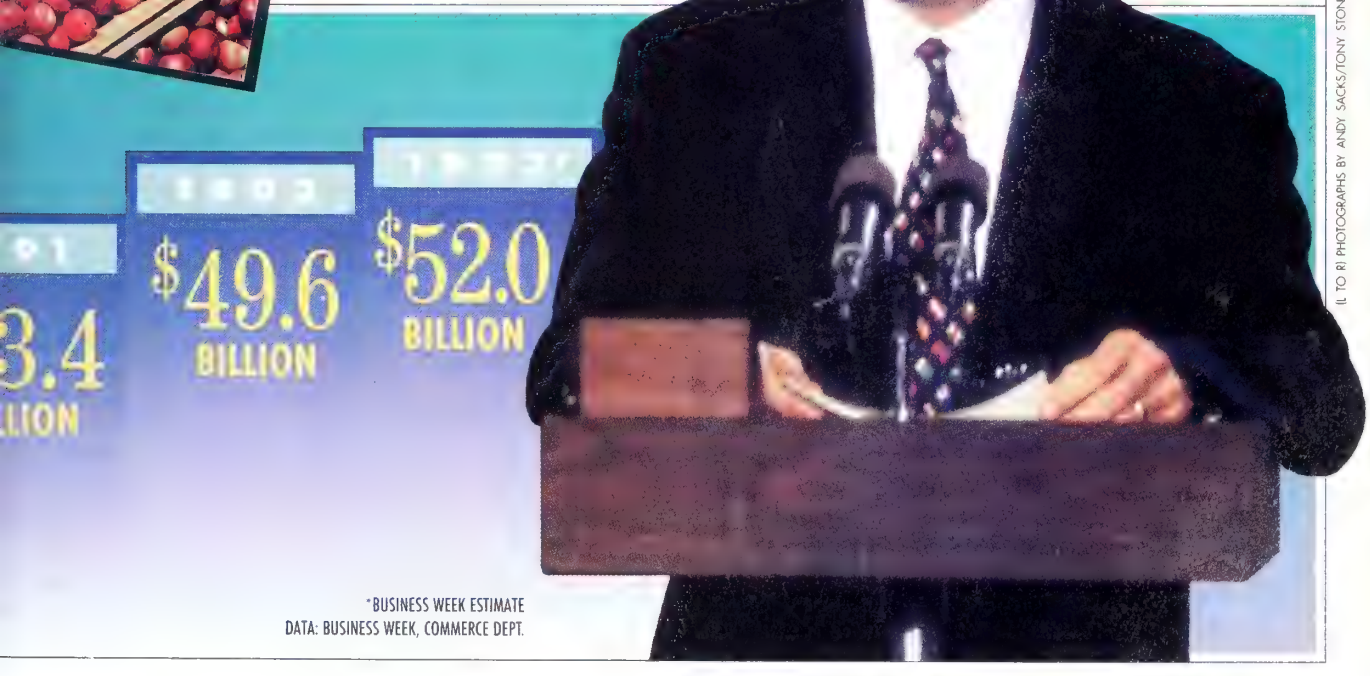
Similarly, on trade, Tokyo may meet some narrower U. S. demands, but Japanese negotiators in Hawaii bluntly warned their U. S. counterparts to tone down expectations of major moves. The point was driven home in a Washington visit in late September by a trio of high-ranking members of the Japan Renewal Party, a key coalition powerbroker. Their message to U. S. and congressional officials: Domestic political reform is now Japan's top priority.

UNNERVING. To American companies, that sounds suspiciously like a variation on the excuses the Japanese always come up with to keep their markets closed. "It's amazing," fumes Michael C. Maibach, director of government affairs for Intel Corp. "We get a change in parties, and what we hear is the U. S. must wait a little longer. We just can't afford this anymore."

Even more unnerving to U. S. officials is Japan's assertive new tone. Kazuo Aichi, chair of the JRP's policy affairs committee, warned that Japan is no longer America's "little brother." The U. S. must "cooperate" with Japan if it hopes to make significant inroads in the booming Asian market, he said in a Washington speech. If not, he declared, it risks being frozen out of Asia and pushed

f Clinton fails to win significant concessions, he will face greatly increased protectionist pressure from Congress and might be forced to rethink his strategy against Japan





*BUSINESS WEEK ESTIMATE
DATA: BUSINESS WEEK, COMMERCE DEPT.

(L TO R) PHOTOGRAPHS BY ANDY SACKS/TONY STONE IMAGES, LISA QUINONES/BLACK STAR

into a "secondary and shrinking po[illegible] in world affairs."

If Japan proves unyielding and[illegible] Clintonites can't produce what th[illegible] promised, Congress may put addit[illegible] pressure on the Administration. In[illegible] Deputy U.S. Trade Represent[illegible] Charlene Barshefsky has already[illegible] the Japanese on notice that such [illegible] may be inevitable. One senior U.S [illegible] cial warns that Clinton is sure to r[illegible] the so-called Super 301 law if no si[illegible] cant progress is made. The statute [illegible] dates retaliation against countries [illegible] the U.S. deems to be unfair tra[illegible] partners.

To avert such drastic measures, [illegible] negotiators are refocusing their st[illegible] gy—and they may be backing off in[illegible] areas. Rather than demanding mea[illegible] able results, U.S. officials are now [illegible] ing more heavily toward seeking[illegible] forms in Japanese decision-ma[illegible] procedures.

That simply may not prove effec[illegible] Take the highly rigged Japanese [illegible] struction industry. The Japanese [illegible] signaled a willingness to alter the [illegible] ding process so that the U.S. track[illegible] ords of American construction co[illegible] nies can be considered in awarding[illegible] projects in Japan. But they won't a[illegible] to specific numerical targets for [illegible] many contracts the Americans will[illegible] or what value they will have. S[illegible] agreement on reforming the bidding [illegible] cess could prove hollow.

"SMELL OF DEATH." Trade experts, [illegible] as former Reagan Administration ne[illegible] tiator Clyde V. Prestowitz, believe [illegible] efforts to tinker with Japanese reg[illegible] tions will bear little fruit. He is pres[illegible] Clinton to bypass the bureaucrats [illegible] ask large Japanese companies that l[illegible] major U.S. operations to buy n[illegible] American goods. He argues that w[illegible] be much more effective than the gov[illegible] ment-to-government talks, which s[illegible] skeptics already are writing off. "Th[illegible] talks have the smell of death," m[illegible] one business lobbyist. To these U.S[illegible] pan mavens, the Clintonites are just[illegible] ginning to learn the lessons that [illegible] Reagan and Bush Administrat[illegible] learned in a wide array of talks v[illegible] acronyms like MOSS and SII. None [illegible] duced major breakthroughs.

So, despite the smiling faces at [illegible] Clinton meeting with Hosokawa, the[illegible] pectation is growing that the la[illegible] round of U.S.-Japanese negotiations [illegible] produce at best only marginal g[illegible] from the American standpoint. Ta[illegible] could prompt a deepening sense of [illegible] frontation between Washington and [illegible] kyo. Which is the kind of change neit[illegible] country had in mind.

By Douglas Harbrecht and A[illegible] Borrus in Washington and Larry Hol[illegible] in Tokyo

OPE

HE YANKS ARE BUYING, HE YANKS ARE BUYING

orts are booming for currency slashers Britain, Sweden, and Italy

Franco Bernardelli is having to brush up on his English these days. The hardworking export director of Longhi, a Treviso consumer-electronmaker, is spending more and more in Chicago and New York. The rea- The U. S. is now the hottest growth ket for the $500 million pany. This year, Bernar- says he'll sell 800,000 tric radiators, espresso hines, and toaster ovens in U. S., about 50% more in 1992.

t Swedish auto maker o, the story is much the e. A takeoff in U. S. sales s model 850 station wagon turbo cars, helped by the lued Swedish krona, is ging Volvo past Germa- Volkswagen as this 's biggest-selling Europe- armaker in the U. S. "The lopment of new products the currency are both going our ," says Mats-Ola Palm, head of Vol- North American operations.

s boom time in exports for thou- ds of companies in Italy and Swe- —and in Britain and other European tries that opted last year to slash the value of their currencies, making their products more price-competitive. The stepped-up overseas sales are cushioning Europe's worst economic downturn since the 1970s. For Sweden and Italy, in particular, buoyant exports "can now set the stage for a recovery," says Nigel Gault, chief European economist for DRI/McGraw-Hill.

Of course, the spate of European imports into the U. S. is worsening the U. S. trade deficit (BW—Sept. 6). Indeed, the U. S. is soaking up European products that have few other places to go: Japan's economic growth is anemic this year, while Eastern Europe and Russia are disappointing markets. Unlike Europeans, "Americans are starting to spend, and the economy is growing," says Claudio Castiglioni, an executive of Italian shoemaker Diego Della Valle. The Milan-based company's U. S. sales are up 40% this year, and it is opening stores in Miami and Los Angeles.

JAGUAR'S CATCH. In pharmaceuticals, Sweden and Italy are profiting from the devaluations. Kabi Pharmacia, a unit of Sweden's Procordia, and Italy's Erbamont are merging, and Kabi Senior Vice-President Betheny Beck says U. S. sales of both companies' products are up.

In dollar volume, Britain is probably the biggest winner. Exports to the U. S. by British companies totaled $13 billion through July, up almost 35% from the same period last year, according to the Confederation of British Industry. At Jaguar Ltd.'s Coventry plant, for example, managers and workers are celebrating the carmaker's biggest sale ever: a $24 million order from Budget Rent-A-Car Corp. for 500 XJ6 sedans.

To maintain the export momentum, Michael Heseltine, president of the Board of Trade, in March launched "North America Now," a drive to hike exports to North America by $4.5 billion by 1995. Sales coups such as Jaguar's should help Heseltine keep the export party going.

By John Rossant in Rome with Julia Flynn in London

EUROPE'S EXPORTERS ARE SCORING IN THE U.S.

	Increase in exports to U.S. Jan.-June, 1993, over year earlier	Hot products
BRITAIN	28%	Cars, avionics, tableware
ITALY	32%	Shoes, electronic goods
SWEDEN	10%	Cars, chemicals, beverages

DATA: GENERAL CONFEDERATION OF ITALIAN INDUSTRY, CONFEDERATION OF BRITISH INDUSTRY, SWEDISH BUREAU OF CENTRAL STATISTICS

CLINTON DECIDES: LET THE EXPORTS FLOW

Think of it as an elixir for the flagging U. S. export machine. On Sept. 29, the Commerce Dept. unled its long-awaited blueprint for ex- t promotion. And its centerpiece—a eeping rollback of export controls on h-tech equipment—immediately set irts fluttering among computer ex- tives, who had started to wonder if sident Clinton had forgotten their npaign support.

The Administration is exempting m export-licensing requirements up $35 billion worth of computer gad- ry, according to Commerce and in- try estimates. The new rules are more liberal than high-tech compas had dreamed of. "It's breathtak- in its scope," says Paul Freeden- g, a trade lawyer at Baker & Botts. The policy is "a winner for both the industry and our country," adds Unisys Corp. Chairman and CEO James A. Unruh.

MIXED BAG. The Administration's task is just half done, however. The move affects only trade with U. S. allies. To make it easier to export to China and the former Soviet Union, Washington must seek the approval of the 17-nation Coordinating Committee on Multilateral Export Controls (COCOM), which restricts shipments of civilian goods that can be used for military purposes.

The rest of the program is a mixed bag. The Administration decided not to make increased foreign aid conditional on purchases of U. S. goods and services—the "tied aid" other countries routinely use. Instead, it pledges to step up efforts to combat the practice. And the President promised a mere $150 million for an Export-Import Bank war chest.

To its credit, the report emphasizes streamlining the overlapping export-promotion bureaucracies and creating "one-stop shopping centers"—in Baltimore, Chicago, Los Angeles, and Miami. Overall, the blueprint creates a new climate of government support for exports. It hints, for example, that officials will help U. S. companies win major overseas contracts, as Clinton did earlier this year when he urged Saudi Arabia to buy Boeing Co. jets. If it succeeds, U. S. export growth could catch a second wind.

By Douglas Harbrecht and Amy Borrus in Washington

EUROPE

VOLKSWAGEN'S FIRST-HALF LOSSES: $980 MILLION

EUROPE GRABS THE EMERGENCY BRAKE

To survive, auto makers are frantically paring output and workers

It is the biggest plea for new funds in Italian history. On Sept. 28, Fiat announced it needs to raise $3.2 billion in a combination of asset sales and capital increases. The Turin-based auto maker has run up first-half losses of $600 million, and its sales have plummeted nearly 23%. In six months, a $6 billion investment program has helped triple its debt load to $4.5 billion. The emergency financial plan will radically change Fiat, forcing the Agnelli family—the sole decision-makers at Fiat for almost one century—to share power in a shareholders' syndicate with France's Alcatel and Germany's Deutsche Bank.

The drastic moves at Fiat are just one sign of how dire things are getting in the European auto industry. Already this year, the market has slumped a numbing 17%, or 1.4 million units. That equals the annual output of one of Europe's six major producers. With the markets yet to hit bottom, industry analysts and executives are asking whether all of Europe's big auto makers can survive. "The market has fallen off a cliff," laments Ian Slater, corporate affairs director for Ford Europe.

Signs of pain are everywhere. Revenues are off by as much as 22.6% for such companies as Ford, Volkswagen, and Renault. The falling sales spell savage payroll cuts. Mercedes-Benz has eliminated 21,000 jobs in the last two years. This year and next, a combined 28,000 more will go. France's Peugeot, which analysts guess may lose as much as $525 million this year, announced on Sept. 21 it will cut employment by 6,000 in 1994 after this year's 4,200 reduction.

But even these moves haven't stopped unsold cars from piling up. John Lawson, a research director at DRI/McGraw-Hill London, says the overhang is now 400,000 automobiles, up one-third from the start of the year. That's turning the second half of 1993 into "the blackest period in a generation" for Europe's auto industry, says Noel Goutard, chairman of French auto-parts giant Va

The list of vulnerable companies is still topped by Fiat. The new cash i buy it some time, but if its performa doesn't improve dramatically, the com ny may be back on the brink. "The c tal increase only works if Fiat can some cars next year," says an execu at Deutsche Bank. Fiat has shut 18% capacity and is betting on its new Pu subcompact to save the day.

NO BEETLE JUICE. Volkswagen is in most as much trouble as Fiat. Just months ago, its new chairman, Fe nand Piëch, was bragging that Vo wagen would be operating profitably the second half of 1993. But since rep ing $980 million first-half losses learning its Spanish SEAT unit expects lose $770 million this year, the talk dried up. VW had to bail out SEAT wit $920 million cash injection in Septemb about the same time it canceled $ million in financing earmarked for vestments in the Czech company Sko

Mercedes-Benz is also reeling, w the sky-high mark and Germany's s ging economy creating a nightmare p up. The luxury carmaker is starting move high-cost production out of Ger ny with a vengeance. On Sept. 30, announced that it will build a new sp utility vehicle in the U. S. (page 138). T company is also looking abroad for a s to produce 200,000 units of a new m car it plans to produce in four years.

GM Europe, which will be the only l ropean auto maker to turn a signific profit this year, is also cutting worke GM's Vauxhall unit in Britain slash production of its Opel Vectra, made its Luton plant, by 8,000 cars in Septe ber. The company has cut 11 work shi at its Astra plant in Ellesmere Port. T Luton plant will be working at as lit as half-capacity in October, too.

To be sure, the auto industry is high sensitive to every twist and turn in t wider economy. "Every month count says Valeo's Goutard. "If things turn early in 1994, it will be O. K." But t more likely scenario is that Europe car sales are likely to bump along t bottom of the current trough and th earnings will remain extremely pressed. Gripped in an ever-tighteni financial vise, more companies will po pone or scrap investment plans. Th may help shore up finances in t short run. But it will put the Euro ans at a disadvantage in develop new technology. And for Europe autoworkers and others dependent the auto industry, the agony w continue.

By John Templeman in Stuttgart, wi John Rossant in Rome, Stewart Toy Paris, and Julia Flynn in London

EUROPE'S BATTERED CAR MARKET

	Percent change in unit sales*	Market share
VOLKSWAGEN	-22.6%	16.0%
FIAT	-22.5	11.7
GM	-12.0	12.7
RENAULT-VOLVO	-16.8	12.1
PEUGEOT	-16.4	12.5
FORD	-15.7	12.1
DAIMLER-BENZ	-23.8	2.8
JAPANESE MAKES	-9.4	11.5

*Jan.-Aug., 1993 vs. Jan.-Aug., 1992
DATA: ASSN. OF EUROPEAN AUTOMAKERS

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SOUTH AFRICA

MANDELA'S WELCOME MAT STARTS DRAWING VISITORS

Investment may be greater than expected, despite political unrest

Conventional wisdom has been that political turmoil would keep a barbed-wire fence around the South African economy for years to come. But there's more action stirring than expected. Only days after Nelson Mandela's call to end economic sanctions, Pillsbury Co., the Minneapolis-based food company, announced a joint venture with a local partner to put Green Giant frozen vegetables and baking goods in South African kitchens. And Parsons Corp., a $1.6 billion Pasadena (Calif.) construction company, is planning a move into South Africa after top executives spent two weeks there discussing projects with African National Congress leaders and others. "What we're talking about is the need to develop whole cities—roads, water and waste treatment, factories—the total infrastructure," says CEO Leonard Pieroni. "Once sanctions are removed, we intend to be in the market."

Those words are music to Mandela and other leaders in the ANC, now the leading black party as the government moves into a new transitional phase. ANC leaders face an economic challenge on a scale of that facing the former East European bloc. There's no time to waste as the country prepares for its first nonracial election next spring.

MORE AID. Mandela's green light clears the way for U. S. states and cities to jettison the remaining taboos against doing business with South Africa. Washington will also move, freeing up International Monetary Fund and World Bank loans for badly needed social programs. As the economic horizon brightens a bit, the ANC is beginning to reveal the outlines of an economic policy.

Once doctrinaire about nationalizing South African industry, ANC leaders are now tilting toward free trade, lowering tariffs, and getting the government out of the way of business. "The ANC is looking increasingly to develop a partnership between the future state and business," says Duncan Innes, a political consultant in Johannesburg. Only days after Mandela's U. N. speech, the ANC announced that when it's in power, it will scrap price-control boards that now set prices on such agricultural goods as maize, sugar, and citrus fruits. Planners also say they would eventually do away with foreign-exchange controls, taking the risk that the free flow of money into the country would surpass the flow out.

Makers of consumer goods are especially eager to tap South Africa's huge market potential

Tax levels are still being debated. Corporations already face high hurdles—40% to 48% taxation rates vs. 36% in the U. S. But everyone agrees that they'll have to stay high if South Africa is to climb out of the social morass left behind by apartheid. One plan on the drawing board is a worker-training tax on every company, local or foreign, to help fund a national training trust, which would be matched by the government. Companies could recoup the taxes only if they set up employee-training programs. It's a mammoth effort: According to Innes, an expert on labor issues, 55% of the economically active population is skilled, and 35% is illiterate.

In order not to scare away prospect investors, however, the ANC has few id rules in mind for foreigners. T will, of course, be expected to abide South Africa's labor laws, which are orously enforced by a powerful tr union movement. The ANC also wa affirmative-action programs for bla and women. Racial and gender disp ties are daunting: In the largest South African companies, 97.5% of m agers are white, while 92.5% are me

TENUOUS UPTURN. Along with a peek future economic strategy, South Afr watchers glimpse some tentative sig that the three-year recession may ending. For the past two quarters, economy has been growing at a 5% nual rate, and inflation is below 10% the first time in two decades. An proved export picture, together with rise in gold prices, has helped ensur surplus for the p few months. But it' tenuous recovery. dustrial output is st nant, interest rates high, and hard-curr cy reserves are l The economic Est lishment is holding breath awaiting an fusion of IMF a World Bank loans t would let officials lo en tight monetary p cy—and help susta the fragile upturn.

With all the politi turmoil to come, no c doubts that South A ca's turnaround will a long haul. But o mism can be found promising places. Ta Anthony J. F. O'Reil chief executive offi of Pittsburgh-bas H. J. Heinz Co. O'Rei is eager to move He into South Africa, in part because, l other consumer companies such as Co Cola Co. and Procter & Gamble Co., already in neighboring Zimbabwe a Botswana. For him, South Africa is only a new market but also a bridge i the sub-Saharan region. "We feel t southern African population of 100 m lion is a region with real developme opportunities," says O'Reilly. With sa tions soon to be a thing of the pa South Africa enters a new chapter of historic transformation.

By Keith L. Alexander in Pittsbur with Alan Fine in Johannesburg, E Schine in Los Angeles, and bureau repo

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OR JORDAN, PEACE EEMS ALMOST AS SCARY AS WAR

n the outskirts of Amman, vast expanses of lavish houses and construction sites cover what was barren desert just a few years ago. Once a mere provinoutpost, the Jordanian capital has mushroomed into a iving, modern city of 1 million during the 26 years of no-, no-peace following the 1967 Arab-Israeli conflict.

Now, the Jordanians are anxiously wondering whether the ently signed accord between Israel and the Palestinian eration Organization is a plus or a minus for them. "We 't want to end up with a bigger problem than we started h," says Jawad al Anani, Jordan's Cabinet Affairs Minister point man for negotiations with Israel and the Palestin-. "We have had our share of destabilization in this part of world."

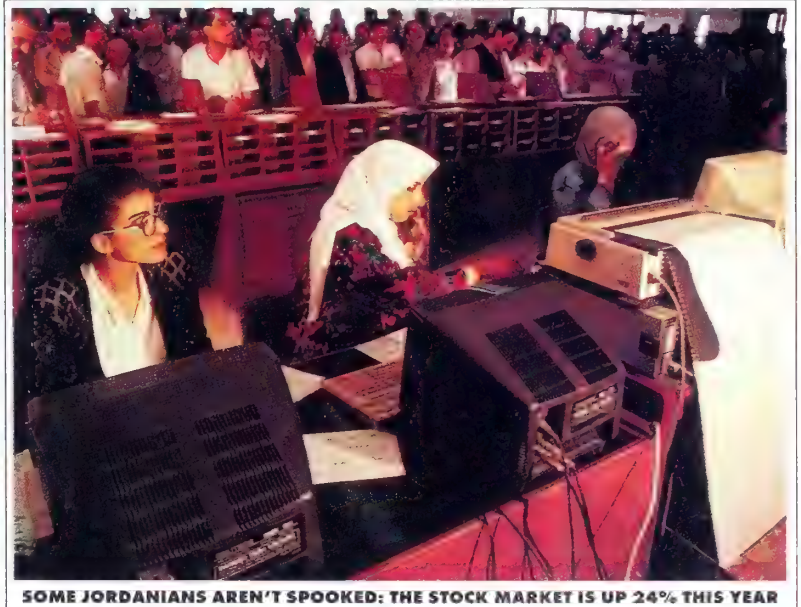
As they head into crucial negotiations with Israel and the estinians on such matters as security, border controls, tar- and monetary systems, the Jordanians have some legiti- concerns. They that opposition to treaty in the West k and Gaza will trigfactional fighting t might deluge Jorwith more Palestinrefugees. They wor- that their industries ld be swamped by sidized Israeli prod- and that the billions lollars in planned de- pment spending for territories could e inflation in Jordan.

T BUFFER? Their most p-seated fear is that lose Israeli-Palestin- relationship will re- e their country's it in the region. Until , Jordan, under King sein's deft leadership, played an important role as a buffer state between Israel the Arabs. If that changes, it could reduce the Hashemite gdom to a backwater that would be deprived of the foreign and other goodies likely to flow to the region. To press r case, the Jordanians are working up demands for comsation for playing host to 1 million Palestinian refugees r the years.

But if the king plays his cards right, Jordan is unlikely to bypassed. The West Bank and Gaza seem too small to d alone and will want some tie to Jordan to avoid being thered by Israel. The Israeli Labor government has also favored a role for Jordan, which has cooperated with Is- on security matters despite the lack of a formal peace ty between the two. Analysts think that the Palestin- and Jordanians, and perhaps the Israelis, are likely to d up bound together in an innovative new state designed atisfy competing national aspirations for the same turf.

Recently Yassir Arafat visited Amman to try to ease Hussein's irritation over the PLO leader's cutting a deal behind the Jordanians' backs. Israeli Prime Minister Yitzhak Rabin also reportedly held a "secret" meeting with the king. Apparently reassured, Hussein is going ahead with the Nov. 8 parliamentary elections that he considered postponing for fear passions were running too high.

"NET GAIN." Hussein seems to have Jordan well-positioned to exploit any opening in trade and development. Compared to most of its neighbors, Jordan's $5.2 billion economy is open and well-managed, and strong in contracting, banking, and other services that the territories will need. Moreover, business in Jordan is dominated by Palestinian-Jordanians, who will want to invest in and trade with the territories. "If you open up the bridges, you have a market worth at least $1 billion," says Taher H. Kanaan, general manager of the Industrial Development Bank in Amman. Because Israel now keeps nearly all Jordanian goods out of the territories, he says, "any share will be a net gain for Jordan."



SOME JORDANIANS AREN'T SPOOKED: THE STOCK MARKET IS UP 24% THIS YEAR

Kanaan says several of his clients have been adding capacity in anticipation of a peace agreement. He is not worried about competition from high-cost Israel, saying military strength does not equal economic competitiveness. Reflecting optimism, Jordan's active stock market is up 24% on the year.

The economy is already going strong, growing at a 6% clip this year on top of an 11% spurt in 1992. It has defied predictions that Jordan's tilt toward neighboring Iraq during the Gulf war would spell ruin. After the collapse of the lucrative Iraqi market, Jordanian manufacturers have diversified, lifting their exports by 23% in 1992. "If we have done this well under instability, we should thrive with stability," says Anis Mouasher, a leading industrialist.

But there may be turbulence until the new relationships among Jordan, Israel, and the emerging Palestinian entity are thrashed out. A wild card is the king's health. While his condition seems stable after last year's cancer surgery, Jordanians shudder at the thought of losing his leadership.

Arafat's renewed prominence threatens to fire up longstanding tensions between Hussein and the PLO over the loyalty of the roughly 50% of the 4 million Jordanian population that is of Palestinian descent. The two sides are also prone to vying for influence in the West Bank and East Jerusalem, which Jordan controlled from 1948 to 1967. But in the long run, the Palestinians and Jordanians will probably find their mutual needs outweigh their differences.

By Stanley Reed in Amman, with Neal Sandler in Jerusalem

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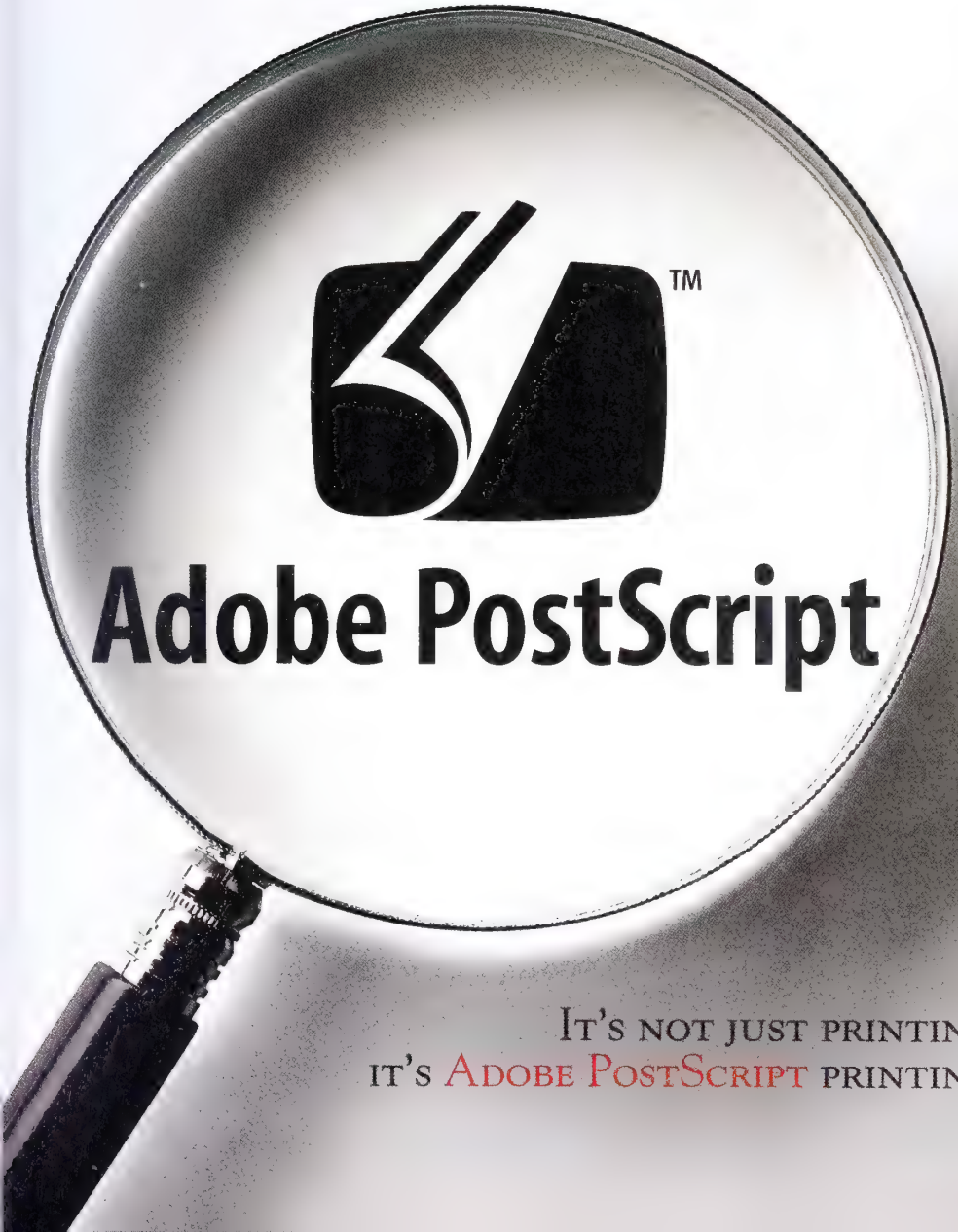

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CEOs WITH THE OUTSIDE EDGE

WHY THEY'RE IN, AS NEVER BEFORE

MICHAEL J. JORDAN

WESTINGHOUSE ELECTRIC

A veteran of McKinsey, Jordan says he brings "ruthless logic" to his turnarounds, which lets him "cut through emotions and people's opinions and get down to the facts"

When Louis V. Gerstner Jr. abruptly quit RJR Nabisco Inc. in March for IBM, he left the RJR Nabisco directors in a tough spot. For a time, they tried co-CEOs: Lawrence R. Ricciardi oversaw administrative matters, while Karl M. von der Heyden supervised finance and operations. But the board wanted a powerhouse who could stabilize RJR's troubled tobacco business and beef up Nabisco's food brands. Not seeing any home-grown talent to fit the bill, directors started looking outside. In May, they settled on former ConAgra Inc. Chairman Charles M. Harper.

From the start, Harper, 66, didn't let his lack of experience at RJR slow him down. He has been hammering out a new strategy for the food-and-tobacco giant. Instead of the debt- and cost-reduction emphasis of the Gerstner years, Harper is concentrating on brand-building and, he hopes, earnings growth. "We are shifting the culture of this company," says Harper. The fact that he has no vested interest in the old culture, Harper believes, may make it easier for him to initiate change.

Call 1993 the Year of the Outsider. Companies ranging from giants such as IBM, Westinghouse, RJR, and Eli Lilly to the more obscure Star Banc, Alza, and Scientific-Atlanta have reached outside their organizations and even their industries to make the big hire. Fully 35% of the 51 new CEOs hired in the first half of 1993 were outsiders—the highest level since Michigan State University professor emeritus Eugene E. Jennings began tracking such things in 1949.

FRESH EYE? What's the allure? For starters, many directors believe outsiders breathe fresh air into organizations. Without any allegiances, the thinking goes, outsiders can shake a company out of its rut. "I don't have some hidden agenda. I don't bring any emotional baggage," says Randall L. Tobias, who was hired away from American Telephone & Telegraph Co. in June to become [illegible] of Eli Lilly & Co.

Hiring an outsider is also a good [illegible] to calm restive shareholders. "The [illegible] sider symbolically represents the [illegible] sion by the board [for] strategic chan[illegible] says Stewart D. Friedman, professo[illegible] management at the Wharton Sch[illegible] And there's usually a quick payoff: A[illegible] cent study by Mitchell & Co. of seve[illegible] large companies shows that the st[illegible] price jumps an average of 68% in [illegible] first 18 months of an outside CEO's t[illegible] ure. For example, three months a[illegible] restless media mogul Barry Diller t[illegible] over the reins at QVC Network in Ja[illegible] ary, its stock price was up 21%.

Of course, Wall Street often che[illegible] outsiders because it figures they'll c[illegible] ly slash costs and boost profits. A[illegible] that was certainly the agenda of ma[illegible] newcomers in recent years. But th[illegible] days, boards seem to be looking [illegible] more, and many of 1993's newcom[illegible] are hardly hatchet men. Harper, for o[illegible]

RANDALL L. TOBIAS

ELI LILLY & CO.

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nore of an empire-builder than a cost-
er. He built up ConAgra from a com-
lity-food processor to a branded-
ds giant. He plans to unveil his stra-
c plan to revitalize RJR in October.
t QVC, Diller is already in the midst
n aggressive expansion plan. In Sep-
ber, he bid $9.9 billion for Paramount
mmunications Inc., a much larger me-
conglomerate. And at General In-
ment Corp., former MCI Communi-
ons President Daniel Akerson is lead-
a push into multimedia ventures.

ome of the ax-wielding outsiders
en't done too shabbily, though. Con-
r Lawrence A. Bossidy at AlliedSig-
Inc. and Stanley C. Gault at Good-
r Tire & Rubber Co., who joined
r respective companies in 1991. Both
ediately took aim at the bloated
s and bad habits that were hobbling
r industrial companies.

L SLASHING. Bossidy laid out a broad
ructuring that included extensive
ffs, plant closings, and asset sales
1 after starting work in July 1991.
payoff: Profits were up 22% to $319
ion in this year's first half, though
s dropped 2%, to just under $6 bil-
. Even better for shareholders, Al-
Signal's stock price has more than
bled, to 71¼, on Bossidy's watch.

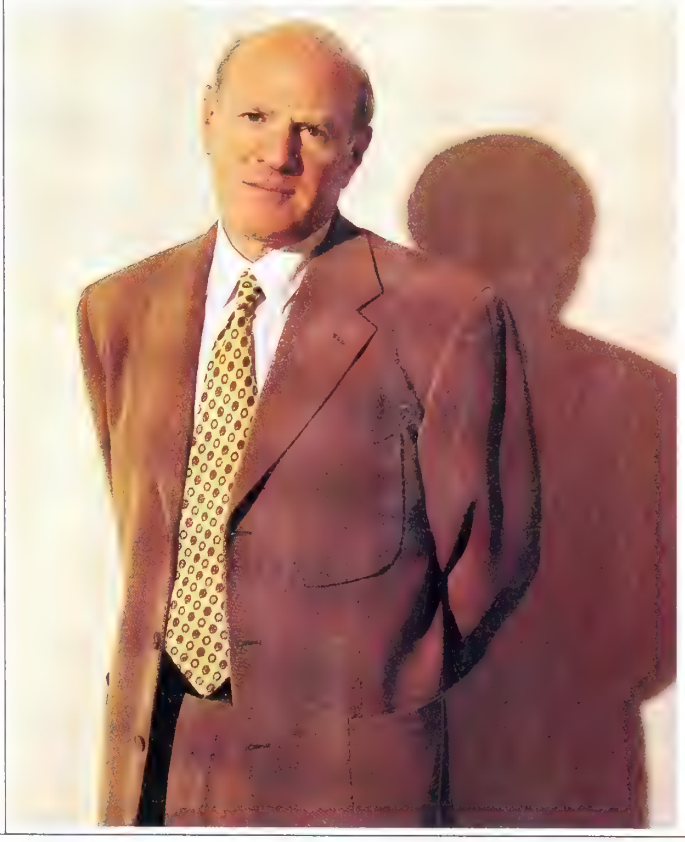
t Goodyear, Gault quickly lightened
company's heavy debt load, picked
he pace of new-product introductions,
added new distribution while contin-
to ratchet down costs with job cuts.
he first half of this year, Goodyear
inued to make gains, increasing its in-
e before accounting charges by 30%,
225 million, on flat sales because of di-
itures. The stock price under Gault is
67%, to 44¾.

Among this year's crop of outsiders, Lou Gerstner at IBM is also running a tighter ship. Three months into his new job, Gerstner announced 35,000 new job cuts and widespread office closings. And while he is getting up to speed on IBM's technology, customers, and markets, IBM will lose an estimated $8.3 billion this year, mostly in restructuring charges, according to Salomon Brothers analyst John B. Jones Jr. Still, Jones sees IBM climbing into the black next year, with an estimated profit of $1.4 billion.

Though he hasn't provided any details, Wall Street expects new CEO Michael H. Jordan to embark on a similar strategy at Westinghouse Electric Co. Jordan, who has hinted at possible cuts, prides himself on the "ruthless logic" he brings to his new job. A veteran of McKinsey, PepsiCo, and the Clayton Dubilier & Rice leveraged buyout firm, Jordan regards himself as a turnaround artist. His specialty: "how to cut through emotions and people's opinions and get down to the facts."

Like plenty of previous management trends, of course, outsider mania is starting to raise the sort of dust associated with thundering herds. Directors, knowing they'll win applause from Wall Street, "impulsively turn to the outside, disparaging inside candidates too quickly," says Emory University management professor Jeffrey A. Sonnenfeld. In so doing, they may drive away seasoned top managers—the ones with critical knowledge of the company, its products, and markets. And those alienated executives are themselves moving on to other companies as outsiders, joining the great corporate diaspora of itinerant managers.

MORALE BUSTER. Whether they're empire-builders or cost-busters, those roving executives aren't necessarily the cure-all for corporate ills. Sometimes, there is no quick fix. Though Westinghouse has shed its troubled financial arm, which



BARRY DILLER

QVC NETWORK

His appointment got a warm hand from the Street. But Diller is not the stereotypical hatchet man. In the midst of an ambitious expansion plan, he is taking aim at Paramount

THE BUSINESS WEEK PHOTOGRAPHER BY BOB HOWER TO JACKRANT DAVID FIELDS ONYX

long bore the blame for the company's poor performance, it is stuck with a tired portfolio of mature businesses, such as nuclear power plant construction. Rather than making promises of quick results, a somber Jordan informed shareholders in September that Westinghouse's third-quarter earnings would be down 50% from dismal year-earlier results. Worse, he acknowledged that a turnaround will require a good deal more corporate pain.

The introduction of an outsider may also create new challenges for companies. Naturally, an outside CEO has to build the trust of his lieutenants and other employees. Jerry A. Grundhofer, who left his job as BankAmerica vice-chairman and was named CEO of Cincinnati's Star Banc Corp. in May, notes that "when I talk to someone, they don't know me. They're evaluating me: Am I a demagogue, or am I fair?" Grundhofer, who was chosen over two insiders, is trying to inject a more aggressive sales culture into the already solid company. But he doesn't care for the outsider label. "I hate that word. It's like Clint Eastwood coming in with guns blazing. [Employees] start off being intimidated. I don't like that."

FREE AGENTS? Like it or not, key executives who were passed over to make room for the outside CEO often leave, sapping the company of crucial talent. For example, when Campbell Soup Co. hired outsider David W. Johnson as CEO in 1990, it passed over both its CFO and its executive vice-president, who had been co-CEOs of the company before Johnson arrived. CFO Edwin L. Harper quit 19 months afterward; Herbert M. Baum, Campbell's ace marketer who shares some of the credit for engineering Campbell's turnaround, left in June to become an outside CEO himself. He now heads Quaker State Corp.

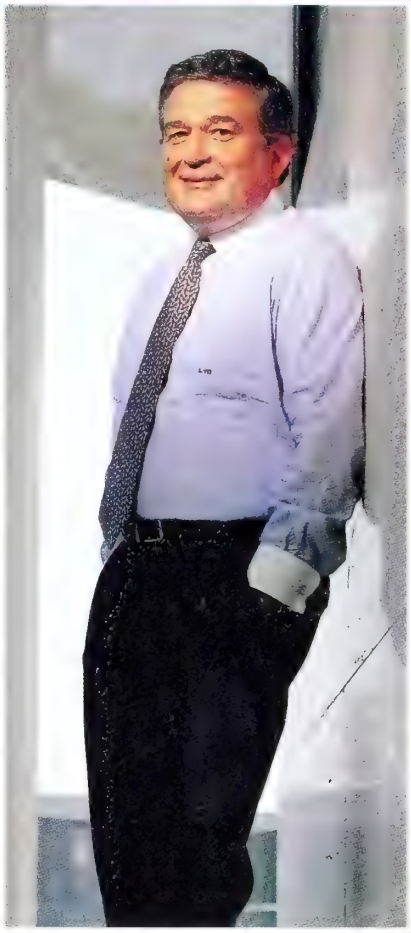
And outsiders feeling their way around in new markets can often make disastrous moves. When Martin F. C. Emmett joined Tambrands Inc. as CEO in 1989, the former boss of International Nabisco Brands Inc. promised shareholders annual earnings growth of more than 15%. He delivered—for a time—by drastically raising the price of Tampax, the company's only remaining product, while slashing marketing spending. But it was a fatal misstep. Tambrands' market share sank from 60% to 51%. Emmett was ousted by the board on June 1. The company is now CEO-less while the board searches for a replacement.

They will probably have little trouble finding one. Thanks to the current rage for outsiders, top executives are more and more willing to jump from company to company. "This is not unlike star players switching teams," says Jeffrey Heilpern of Delta Consulting Group Inc., which counsels companies with new leaders. "We're starting to have the equivalent of a free-agency system. People are realizing that their capabilities are portable."

Unfortunately, the new fickleness of CEOs may mean some second-tier c panies will be repeatedly jilted. T Stride Rite Corp., the Cambri (Mass.) shoe company that has see string of CEOs brought in to succ longtime Chairman Arnold S. Hi Ronald J. Jackson, now head of Fis Price Inc., was hired twice to run company but each time left within months to take better jobs. The m recent CEO, Ervin R. Shames, left a a year to run Borden Inc. Meanwh Stride Rite is suffering: Revenues earnings have been slipping—altho not as fast as the stock price, whic down 37% so far this year, to 14.

How long will the outsider craze l As the economy picks up and sales ev tually rise, management experts say rectors won't feel as much pressure overhaul top management. But if t year's crop of empire-builders fare well as the ax-wielders of a couple years ago, boards aren't likely to sh the outsider bug. Indeed, top executi may have to get used to keeping eye on the bottom line and the ot on the open road.

By Elizabeth Lesly in New York, w Zachary Schiller in Cincinnati, Step Baker in Pittsburgh, Geoffrey Smith Boston, and bureau reports



LOUIS V. GERSTNE

IBM

In classic outsider fashion, Gerstner took ax to Big Blue big bloat and hasn't stopped swinging yet. One analyst says IBM may show a profit next year

CHARLES M. HARPER

RJR NABISCO

More an empire-builder than a cost-cutter, Harper built up ConAgra from a commodity-food processor to a giant in branded goods

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PORTRAIT OF A CEO

WHAT'S THE TYPICAL BOSS LIKE? HERE ARE THE VITAL STATISTICS

It's hard to think of Robert L. Crandall as average. But the feisty, blunt-spoken chief executive of AMR Corp. comes darn close to matching the profile of the typical boss at a BUSINESS WEEK 1000 company. He has spent 20 years at his company—nine as CEO. And he rose through the ranks, serving stints in finance and marketing. Crandall is 57 and married, with three kids. Born in Westerly, R.I., he has an undergraduate degree in business administration and went on to earn his MBA at Wharton School. Unfortunately, when it comes to his paycheck, he veers below the norm: his salary isn't great by CEO standards, just $626,000.

The typical CEO in this year's Corporate Elite isn't much different. His average age is 56, and the length of time in the top job is 8.5 years, with an average company tenure of 21 years. Chances are the CEO is male, white, and Protestant—although there are three females on this year's Corporate Elite roster. Linda J. Wachner of Warnaco Group Inc. and Carol A. Bartz of Autodesk Inc. were on last year's list. The newcomer: Jane C. I. Hirsh of Copley Pharmaceutical Inc., whose rising market value propelled it onto the Top 1000 list this year.

The average CEO is also well-educated. Fully 90% have college degrees, with 505 having gone on for graduate degrees—mostly MBAs. But that doesn't mean they were necessarily bookworms: 218 played varsity sports, with football being the preferred activity.

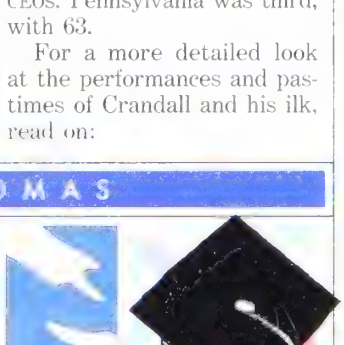
Where do CEOs come from? Most were born in the Northeast and the Midwest. New York again tops the list: 136 of the Corporate Elite are natives of the Empire State. Illinois ranked second, with 78 CEOs. Pennsylvania was third, with 63.

For a more detailed look at the performances and pastimes of Crandall and his ilk, read on:

DIPLOMAS

Go Bulldogs! Yale University, which has traditionally produced the most CEOs in the Corporate Elite, again topped the list of colleges. There are 29 Yalies among this year's BUSINESS WEEK 1000 chieftains. The more illustrious alumni include Roberto Goizueta of Coca-Cola, Frederick Smith of Federal Express, and Richard Gelb of Bristol-Myers Squibb.

Princeton was close behind, with 28. Other leading CEO factories: Harvard, with 23; Cornell, 19; and Wharton, 19. Of course, not every CEO came from the Ivy League. The City College of New York turned out 11. The best-known among its grads is Andrew Grove of Intel Corp.



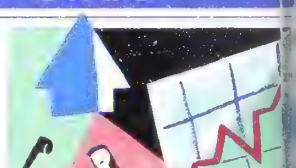
Engineering was the most popular major among CEOs, followed by economics. But not everyone wanted such a practical education. This year's Corporate Elite counts no fewer than four philosophy majors. The most notable: Ronald E. Compton of Aetna Life & Casualty.

Slightly more than half of the Top 1000 CEOs went on to receive graduate degrees. Here, Harvard was the preferred choice, with 99 CEOs having trooped through the crimson corridors. Stanford University comes in n[ext] with 23 grads, and Massa[chu]setts Institute of Techno[logy] claims 19. Not surprisin[gly] most postgraduates sou[ght] MBAs. The next most-pop[ular] choice: law.

Some 24 CEOs on [this] year's list never went to [col]lege at all. Some 69 ot[hers] executives went to coll[ege] but left without getting a[ny] degree. Barry Diller of [Fox] Network Inc. dropped out [of] Stanford and then the [Uni]versity of California at [Los] Angeles before taking a [job] in the mail room of the [Wil]liam Morris talent agency [in] Los Angeles.

REPORT CARD

This year's crop seems to be doing a better job than last year's. The median BUSINESS WEEK 1000 company reported an 18.5% increase in net income, to $75 million in 1992, as sales climbed by a modest 5.3%, to $1.6 billion. In 1991, earnings for the median Top 1000 company tumbled 9.5%, as sales rose 6.2%.



Philip Morris Cos. claims the prize as the most profitable, with earnings of $4.9 billion. It's followed by Exxon Corp. with $4.8 billion. As for the losers, IBM claims the dismal prize. Big Blue posted a staggering $6.9 billion in red ink last year. Another notable loser was General Motors Corp. The biggest company, in terms of sales, lost $2.6 billion. Sears, Roebuck & Co. was close behind, with a loss of $2.57 billion.

How did the Top 1000 company with the smallest sales do? Pretty well: Taub[man] Centers Inc., a real [es]tate investment trust [with] $1.92 million in revenu[es] earned an astonishing $[6] million.

It's clear that the st[ock] market has been pleased [with] the performance of m[ost] members of the BUSINESS WEEK 1000. Median mar[ket] capitalization rose 32.7%, [to] $1.74 billion.

American Telephone [&] Telegraph Co. had the la[rg]est market capitalizati[on] with $84.5 billion, up 4 [%] in 1992. Other market-va[lue] monoliths were Gene[ral]

ctric, Exxon, Wal-Mart
res, and Coca-Cola. On
opposite end of the spec-
m resides Argosy Gam-
, at $633 million.
Excluding Berkshire Hath-
away Inc., recently trading at a lofty $16,800 a share, the composite stock price of the Top 1000 rose to $39.51 from $38.44. Price-earnings ratios fell to 24 from 25.

COMPENSATION

etter performance de-
serves better pay, right?
eed, the average pay for
nbers of the Corporate
e is climbing at a quicker
e nowadays. In 1992, the
rage CEO earned $984,000
alary and short-term bo-
es, excluding stock options
dividends. That's a 16.3%
e—attractive by most
ndards and even more
erous considering that
s had to make do with a
% pay increase in 1991.
he fattest paycheck went
James E. Cayne of Bear
arns Cos., who earned
.7 million last year in sal-
and bonus. Incidentally,
is Cayne's inaugural
r among the Corporate
e. He took over from
irman Alan C. Greenberg
July. Stephen C. Hilbert
Conseco Inc. was the sec-
-highest paid, with $8.7
lion. Walt Disney Co.'s
hael D. Eisner was third,
7.5 million. In all, 75 CEOs
le salaries of at least $2
ion in 1992. And no fewer
n 345 CEOs managed at least $1 million. With a salary of $3.2 million, Warnaco's Wachner remains the highest-paid female CEO. At the other end of the pay scale, four chiefs made less than $100,000, including Dennis R. Hendrix of Panhandle Eastern Corp. He earned a paltry $23,000 last year—excluding stock, of course.

Among industries, conglomerates and financial services paid their CEOs the most, averaging $1.7 million and $1.5 million, respectively. If earning big bucks is one of your primary concerns, stay away from utilities: They were the stingiest, with pay averaging $563,000.

CAREER PATH

ow does an executive
make it to the corner of-
? As in previous years,
e CEOs started out in fi-
ce and accounting than in
other area. Indeed, 21%
his year's Corporate Elite
nched numbers at one
e. Marketing was the sec-
-most-popular route to the
–19% are former market-
s. There are less conven-
al career paths: David R.
de of Norfolk Southern
p. started off as a tax at-
ney in 1965.
Regardless of experience,
a long haul to the top job.
average, CEOs spent 13
rs at their companies be-
capturing the corner of-
. It takes even longer in
aerospace industry: 18
rs. Dennis Weatherstone
J. P. Morgan Co. waited longer than any other CEO. He toiled away for 44 years before claiming his prize four years ago. Silicon Valley executives would shudder at the idea: CEOs in the computer industry have worked for their companies only six years. Sometimes the wait is even shorter. Eric A. Benhamou took over at 3Com Corp. in 1990 after joining the company three years earlier.

THE NEW CEOs

There are 91 newly crowned CEOs among the Corporate Elite. Most took over from retiring chiefs. Two of the most notable rookies reached the top in the oil patch: Lee Raymond, who took the baton at Exxon when Lawrence Rawl retired in May, and Alfred DeCrane Jr., who replaced the retiring James Kinnear at Texaco in April.

On average, the new guys have taken over at corporations that are bigger than the typical BUSINESS WEEK 1000 company. The average newcomer oversees annual sales of $7.2 billion and net income of $113 million. He's also presiding over a company that enjoys a bigger market cap: $4.9 billion.

The resumés of typical newcomers look slightly different than that of the average Top 1000 CEO. They have spent an average of 13 years at their companies, eight years less than their counterparts who have been boss for longer. Four of the newly minted CEOs are graduates of the U. S. Naval Academy. At $746,000 a year, the novices also earn 24% less than the average CEO.

And they're younger: a sprightly 53 on average. The youngest is 35-year-old Bruce C. Gottwald Jr. of First Colony Corp. He took on the top job when the company was spun off from Ethyl Corp. in December, 1992. The oldest among the neophytes is 70-year-old Neil H. Ashley of 20th Century Industries Inc., who took the mantle from Louis W. Foster in September.

TRIVIA

What do CEOs do in their spare time? Play golf, of course. Some 41% of this year's Corporate Elite take to the links, while 29% prefer tennis. But many also prefer more cerebral pastimes. William W. McGuire of United Healthcare Corp. takes pride in studying and collecting butterflies. John E. Jones of CBI Industries Inc. prefers to watch birds. Many other bosses are passionate collectors. Lawrence Perlman of Ceridian Corp. likes Eskimo art, while Richard J. Mahoney of Monsanto Co. collects Churchill memorabilia.

The average chief executive is also a family man—married with three children. Some prefer bigger families: 40 have six or more kids. Lawrence A. Bossidy of AlliedSignal Inc. and Victor Albert Rice of Varity Corp. have nine children each. And many aren't above a little nepotism: 97 CEOs have one of their children working at their company.

Most CEOs were born in the U. S. But 68 are natives of other lands. Hatim A. Tyabji of Verifone Inc. was born and raised in Bombay before coming to the U. S. to attend graduate school in electrical engineering. Amax Gold Inc.'s Timothy J. Haddon was born in Harare, Rhodesia, now Zimbabwe, and came to the U. S. after completing high school.

There's lots more information about the Corporate Elite in the following pages. For a complete rundown on the decision-makers at the biggest U. S. companies, take a look.

By Sunita Wadekar Bhargava, with Fred F. Jespersen, in New York

THE CORPORATE ELITE

The Chief Executives of the Business Week 1000, the most valuable publicly held U.S. companies

COMPANY	CEO	HDQ LOC	SALES $ MIL	PROFITS $ MIL	MKT VAL $ MIL	BORN	PLACE	COLLEGE EDUCATION	GRADUATE STUDY	CAREER PATH	TENURE COMPANY	TENURE CEO
ABBOTT LABORATORIES	DUANE L. BURNHAM	IL	7852	1239	21657	1/22/42	MN	BS, U. of Minn. '63	MBA, U. of Minn. '72	Finance	11	4
ACCLAIM ENTERTAINMENT	GREGORY E. FISCHBACH	NY	215	14	950	4/29/42	WA	BS, San Francisco St. '63	JD, Cal/Hastings '66	Legal	7	7
ADAPTEC	JOHN G. ADLER	CA	311	49	818	3/17/37	Hungary	BS, U. of Miss. '60	MBA, Stanford '71	Technical	8	7
ADC TELECOMMUNICATIONS	WILLIAM J. CADOGAN	MN	316	21	987	6/29/48	MA	BA, Northeastern '71	MBA, Wharton '84	Technical	6	2
ADOBE SYSTEMS	JOHN EDWARD WARNOCK	CA	266	44	933	10/6/40	UT	BS, U. of Utah 61	MS '64/PhD '69, U. of Utah	Technical	11	5
ADVANCED MICRO DEVICES	WALTER JEREMIAH SANDERS III	CA	1514	245	2834	9/12/36	IL	BS, U. of Ill. '58		Marketing	24	24

EXECUTIVE TO WATCH

▶ Nicknamed "Hollywood Jerry" because of his lavish lifestyle, he is getting some mixed reviews these days. Sales are booming. But shareholders have taken aim at his hefty compensation package, with perks that include a chauffeured Rolls. He also faces lawsuits file by Intel Corp. that charge AMD with illegally using its technology. AMD says it has agreements use Intel's knowhow. Still, he promises to introduce a new chip in 1994.

ADVANTA	DENNIS ALTER	PA	342	48	1405	8/16/42	PA	BS, Temple '66		Educ/Adm	24	21
AES	ROGER W. SANT	VA	401	56	1403	5/24/31	CA	BS, Brigham Young '55	MBA, Harvard '60	Administration	12	12
AETNA LIFE & CASUALTY	RONALD EDWARD COMPTON	CT	17497	5	6541	2/10/33	IL	BS, Northwestern '54		Insurance	39	2
AFLAC	DANIEL P. AMOS	GA	3986	183	3377	8/13/51	FL	BS, U. of Ga. '73		Marketing	20	3
AHMANSON (H.F.)	RICHARD H. DEIHL	CA	3656	156	2293	9/9/28	CA	AB, Whittier '49	Cal/Berkeley	Mktg, Finance	34	10
AIR PRODUCTS & CHEMICALS	HAROLD A. WAGNER	PA	3217	277	4977	11/12/35	CA	BS, Stanford '58	MBA, Harvard '63	Mgmt/Sales	30	1
ALBERTSON'S	GARY GLENN MICHAEL	ID	10174	276	6866	9/23/40	MT	BS, U of Idaho 62		Finance	27	3
ALC COMMUNICATIONS	JOHN M. ZRNO	MI	376	14	723	8/3/38	UT	BSEE, U. of Utah '61	MBA Penn State 69	Tech/Finance	5	5
ALCO STANDARD	JOHN E. STUART	PA	4922	104	2135	2/10/44	CA	BS, Pace '80	MBA, Pace '80	Administration	8	0
ALCOA	PAUL H. O'NEILL	PA	9492	22	6681	12/4/35	MO	BS, Fresno St. '60	MPA, Indiana '66	Economics	6	6
ALEXANDER & ALEXANDER SERVICES	TINSLEY H. IRVIN	NY	1350	55	1028	5/30/33	GA	BBA, Ga. State '55		Insurance	40	6
ALEXANDER & BALDWIN	JOHN C. COUCH	HI	731	61	1089	5/10/39	WA	BS, U. of Mich. '63	MS, U of Mich 64 MBA, Stanford '76	Tech/Ops	17	1
ALLEGHANY	JOHN J. BURNS JR.	NY	1788	64	966	6/27/31	MA	BS, Boston Coll. '53	MBA, Harvard '55	Finance	25	1
ALLEGHENY LUDLUM	ROBERT PETER BOZZONE	PA	1036	47	1514	8/9/33	NY	BS RPI 55		Production	38	3
ALLEGHENY POWER SYSTEM	KLAUS BERGMAN	NY	2307	222	3130	5/24/31	Germany	AB, Columbia '53	LLB, Columbia '55	Legal	22	8
ALLERGAN	WILLIAM C. SHEPHERD	CA	898	106	1500	7/21/38	CA	BS, Cal/Berkeley '63	MBA, Pepperdine '76	Research/Prodn	27	2
ALLIEDSIGNAL	LAWRENCE A. BOSSIDY	NJ	12042	535	10403	3/5/35	MA	BA, Colgate '57		Finance	2	2
ALLMERICA PROPERTY & CASUALTY	JOHN F. O'BRIEN	MA	1923	134	1191	Age 50	MA	AB, Harvard '65	MBA, Harvard '68	Finance	4	4
ALLSTATE	WAYNE E. HEDIEN	IL	20228	500	11536	2/15/34	IL	BSME, Northwestern '56	MBA, Northwestern '57	Finance	27	4
ALLTEL	JOE T. FORD	AR	2092	229	5368	6/24/37	AR	BSBA, U. of Ark. '59		Finance	34	6
ALZA	ERNEST MARIO	CA	229	72	1606	6/12/38	NJ	BS, Rutgers '61	MS '64/PhD '66, U. of R.I.	Technical	0	0
AMAX	ALLEN BORN	NY	3698	-148	2185	7/4/33	CO	BS, U. Tex./El Paso '58		Technical	26	8
AMAX GOLD	TIMOTHY J. HADDON	CO	100	13	642	11/26/48	Zimbabwe	BS, Colo. Mines '68		Technical	17	4

THE CORPORATE ELITE

	CEO	HDQ LOC	SALES $ MIL	PROFITS $ MIL	MKT VAL $ MIL	BORN	PLACE	COLLEGE EDUCATION	GRADUATE STUDY	CAREER PATH	TENURE COMPANY	TENURE CEO	PAY $ THOUS
	PHILLIP B. LASSITER	NY	241	130	1671	8/11/43	MO	BS, N.C. State '64		Finance	2	2	630
DA HESS	LEON HESS	NY	5875	8	5012	3/13/14	NJ			Mktg/Entrepreneur	47	28	300
CAN BRANDS	WILLIAM J. ALLEY	CT	8840	884	6276	12/27/29	TX	BBA, U. of Okla. '51	JD, U. of Okla. '54	Insurance	15	6	2018
CAN CYANAMID	ALBERT J. COSTELLO	NJ	5268	395	4863	9/4/35	NY	BS, Fordham '57	MS, NYU '64	Technical	36	0	751
CAN ELECTRIC POWER	E. LINN DRAPER JR.	OH	5045	528	7128	2/6/42	TX	BS, Rice '65	PhD, Cornell '70	Tech/Educ	2	0	405
CAN EXPRESS	HARVEY GOLUB	NY	26961	436	15728	4/16/39	NY	BS, NYU '61		Management	9	1	1557
CAN GENERAL	HAROLD SWANSON HOOK	TX	4602	533	7542	10/10/31	MO	BS, U. of Mo. '53	MA, U. of Mo. '54	Finance	23	15	1715
CAN GREETINGS	MORRY WEISS	OH	1672	112	2148	5/1/40	Czech.	BA, Case Western '64		Marketing	32	6	970
CAN HOME PRODUCTS	JOHN R. STAFFORD	NY	7874	1151	19788	10/24/37	PA	AB, Dickinson '59	LLB, Geo. Washington '62	Legal/Mgmt	23	7	2040
CAN INTERNATIONAL GROUP	MAURICE RAYMOND GREENBERG	NY	19441	1625	30483	5/4/25	NY	Cert , U. of Miami '48	LLB, N.Y. '50	Insurance	33	26	2247
CAN MEDICAL HOLDINGS	ROBERT W. O'LEARY	TX	2238	110	1047	12/3/43	MA	BS, U. of Mass. '65	MA, N.Y. Law '68; JD, Suffolk '73	Health care	2	2	1626
CAN NATIONAL INSURANCE	ROBERT L. MOODY	TX	1318	177	1483	7/28/35	TX			Finance	11	2	2224
CAN POWER CONVERSION	RODGER B. DOWDELL JR.	RI	157	28	1921	4/23/49	RI	BSEE, Brown '71	MSEE, U. of R.I. '75	Technical	9	8	659
CAN PRESIDENT	JOHN M. LILLIE	CA	2574	78	664	2/2/37	IL	BS, Stanford '59	MS/MBA, Stanford '64	Management	3	2	932
CAN RE	EDWARD B. JOBE	NJ	1189	97	1682	11/24/29	IA			Mktg/Finance	30	7	918
CAN STORES	VICTOR L. LUND	UT	19051	206	3167	10/13/47	UT	BA, U. of Utah '69	MBA, U. of Utah '72	Finance	16	1	1009
CAN TELEPHONE & TELEGRAPH	ROBERT E. ALLEN	NY	64904	3807	84525	1/25/35	MO	BA, Wabash '57		Operations	36	5	2258
CAN WATER WORKS	GEORGE W. JOHNSTONE	NJ	657	68	912	9/9/38	NY	BS, Penn State '60		Technical	27	2	352
TECH	WILLIAM LEE WEISS	IL	11153	1346	22817	5/21/29	PA	BS, Penn State '51		Technical	10	10	1434
	GORDON M. BINDER	CA	1093	358	4861	9/4/35	MO	BS, Purdue '57	MBA, Harvard '62	Finance	11	5	807
	H. LAURANCE FULLER	IL	25280	850	28010	11/8/38	IL	BS, Cornell '61	JD, DePaul '65	Tech/Prodn/Legal	32	3	1223
	WILLIAM J. HUDSON	PA	3337	290	6792	5/20/34	IL	BEE, Cornell '57	Drexel	Technical	32	1	517
	ROBERT L. CRANDALL	TX	14396	-475	5121	12/6/35	RI	BS, U. of R.I. '57	MBA, Wharton '60	Mktg/Finance	20	9	626
ITH BANCORPORATION	JOHN W. WOODS	AL	830	102	1401	8/18/31	IL	BA, U. of the South '54		Banking	24	22	790
RKO PETROLEUM	ROBERT J. ALLISON JR.	TX	375	27	2568	1/29/39	IL	BS, U. of Kan. '60		Technical	20	7	1059
G DEVICES	RAY STATA	MA	567	15	1138	11/12/34	PA	BS, MIT '57	MS, MIT '58	Mktg/Mgmt	28	23	546
SER-BUSCH	AUGUST A. BUSCH III	MO	11394	994	12786	6/16/37	MO	U. of Ariz.	Siebel Tech '61	Marketing	36	14	2014
	PATRICK G. RYAN	IL	3337	206	3673	5/15/37	WI	BS, Northwestern '59		Mktg/Sales	11	11	1071
	RAYMOND PLANK	TX	423	48	1662	5/29/22	MN	BA, Yale '44		Oil & gas	39	15	900
COMPUTER	MICHAEL H. SPINDLER	CA	7087	530	3064	12/22/42	Germany		MS, Rhein. Sachhoch. '66	Technical	13	0	1127

EXECUTIVE TO WATCH

▶ He was promoted to CEO in June, but there's been no time for champagne. Apple had its biggest quarterly loss ever—$188 million in June. He hopes sluggish Mac sales will improve after price cuts in July. Still, the Newton handheld communicator is off to a rocky start. But wait till next year: A whole new line of Macs based on the speedy IBM-Apple-Motorola PowerPC chip is due in March.

D MATERIALS	JAMES C. MORGAN	CA	751	39	2713	8/27/38	IL	BS, Cornell '62	MBA, Cornell '63	Tech/Finance	17	17	761
T DANIELS MIDLAND	DWAYNE O. ANDREAS	IL	9232	504	7677	3/4/18	MN	Wheaton		Marketing	27	23	2779
HEMICAL	ALAN R. HIRSIG	PA	3098	197	3971	9/30/39	WI	BS, Ill. Tech '61		Technical	32	3	716
AUT GROUP	CHARLES EMIL RINSCH	CA	470	86	859	6/28/32	IN	BS, Indiana '53	MS, Butler '59; MBA, Stanford '60	Finance	28	6	520
Y GAMING	J. THOMAS LONG	IL	58	15	638	6/3/50	IL	BS, SMU '72	JD, SMU '76	Legal	2	1	197
	T. MILTON HONEA	TX	2744	6	1085	1/14/33	AR	BS, Cal/Berkeley '56	MBA, Harvard '58	Production	9	1	346
	ROBERT L. PURDUM	NJ	2074	-421	727	6/15/35	OH	BS, Purdue '56		Technical	31	3	550
RONG WORLD INDUSTRIES	GEORGE A. LORCH	PA	2550	-62	1411	12/16/41	NJ	BS, Va. Polytechnic '63		Marketing	30	0	299
' ELECTRONICS	STEPHEN P. KAUFMAN	NY	1622	50	1228	11/19/41	MA	BS, MIT '63	MBA, Harvard '65	Consulting	11	7	959
INDUSTRIES	BYRON O. POND	IN	1890	40	697	7/6/36	MI	BS, Wayne St. '61		Mktg/Prodn	25	0	547
	RICHARD DE J. OSBORNE	NY	1908	-29	806	3/19/34	NY	AB, Princeton '56		Finance	19	8	813
ID OIL	JOHN RICHARD HALL	KY	9592	-68	1949	11/30/32	TX	BS, Vanderbilt '55		Production	36	12	728
ATED COMMUNICATIONS	JACK NEVILLE BERKMAN	PA	56	4	908	2/12/5	England	AB, U. of Mich. '26	JD, Harvard '29	Legal/Communs	15	15	400
APITAL	THOMAS C. WAJNERT	NJ	1199	112	1195	5/9/43	IL	BS, Ill. Tech '65	MBA, SMU '66	Management	9	8	526
A GAS LIGHT	DAVID R. JONES	GA	995	55	947	5/22/37	GA	BS, Ga. Tech '59		Technical	33	6	438
IC ENERGY	JERROLD L. JACOBS	NJ	817	104	1320	5/21/39	NY	BS, NCE '61		Tech/Prodn	32	0	278
IC RICHFIELD	LODWRICK MONROE COOK	CA	17503	1193	18404	6/17/28	LA	BS'50/BS'55, LSU	MBA, SMU '65	Mktg/Prodn	37	8	1870
IC SOUTHEAST AIRLINES	GEORGE F. PICKETT JR.	GA	236	37	1078	3/7/41	AL	BA, U. of Tex. '67	MBA, Ga. State '72	Tech/Mktg	14	14	340
ESK	CAROL A. BARTZ	CA	368	44	1121	8/28/48	MN	BS, U. of Wis. '71		Sales/Mktg	1	1	543
ATIC DATA PROCESSING	JOSH S. WESTON	NJ	1941	256	6782	12/22/28	NY	BS, CCNY '50	MS, U. New Zealand '51	Operations	23	11	949
ONE	JOSEPH R. HYDE III	TN	1002	63	3751	12/27/42	TN	BS, U. of N.C. '65		Distribution	14	14	1044
DENNISON	CHARLES D. MILLER	CA	2623	80	1540	3/1/28	CT	BA, Johns Hopkins '49		Mktg/Prodn	29	16	1180

THE CORPORATE ELITE

COMPANY	CEO	HDQ LOC	SALES $ MIL	PROFITS $ MIL	MKT VAL $ MIL	BORN	PLACE	COLLEGE EDUCATION	GRADUATE STUDY	CAREER PATH	TENURE COMPANY	TENURE CEO
AVNET	LEON MACHIZ	NY	1759	51	1394	6/23/24	NY	Cooper Union		Marketing	25	
AVON PRODUCTS	JAMES EDWARD PRESTON	NY	3810	175	4225	4/30/33	OH	BS, Northwestern '55		Marketing	29	
BAKER HUGHES	JAMES D. WOODS	TX	2539	5	3864	7/24/31	KY	BA, Cal/Fullerton '67	Cal/Fullerton	Finance	38	
BALL	DELMONT A. DAVIS	IN	2178	63	911	6/11/35	CO	BS, U. of Colo. '59	U. of Colo.; U of So. Miss.	Production	25	
BALTIMORE GAS & ELECTRIC	CHRISTIAN H. POINDEXTER	MD	2491	264	3929	9/20/38	IN	BSA, U.S Naval Acad '60	MBA, Loyola Coll. '75	Finance	26	
BANC ONE	JOHN BONNET McCOY	OH	5999	781	14291	6/11/43	OH	BA, Williams '65	MBA, Stanford '67	Fin/Banking	23	
BANCORP HAWAII	H. HOWARD STEPHENSON	HI	940	117	1202	7/15/29	KS	BA, U. of Mich. '50	JD, U. of Mo./KC '58	Finance	34	
BANDAG	MARTIN G. CARVER	IA	591	83	1515	5/10/48	IA	BA, U. of Iowa '70	MBA, Indiana '72	Finance	14	
BANK OF BOSTON	IRA STEPANIAN	MA	5292	192	2057	11/14/36	MA	BA, Tufts '58	MBA, Boston Coll. '71	Banking	30	
BANK OF NEW YORK	J. CARTER BACOT	NY	3583	369	4350	2/7/33	NY	AB, Hamilton '55	LLB, Cornell '58	Legal/Research	34	
BANK SOUTH	PATRICK L. FLINN	GA	460	28	709	4/2/42	DC	BA, U of Ill 64	MBA, Georgia St. '71	Finance	2	
BANKAMERICA	RICHARD MORRIS ROSENBERG	CA	15262	1492	16587	4/21/30	MA	BS, Suffolk '52	MBA '63/LLB '66, Golden Gate	Banking	6	
BANKERS LIFE HOLDING	BARTH T. MURPHY	IL	1280	83	1357	10/11/30	IL			Finance	43	
BANKERS TRUST	CHARLES STEADMAN SANFORD JR.	NY	6550	761	6490	10/8/36	GA	BA, U. of Ga. '58	MBA, Wharton '60	Fin/Banking	32	
BANPONCE	RICHARD L. CARRION	PR	865	85	939	11/26/52	PR	BS, Wharton '75	MA, MIT '76	Finance	17	
BANTA	CALVIN W. AURAND JR.	WI	637	36	650	4/11/30	MN	BA, Amherst '52		Finance	5	
BARD (C. R.)	GEORGE T. MALONEY	NJ	990	75	1229	8/28/32	PA	BS, Siena '54		Sales/Mktg	35	
BARNETT BANKS	CHARLES EDWARD RICE	FL	3457	208	4531	8/4/35	TN	BA, U. of Miami '58	MBA, Rollins '64	Fin/Banking	28	
BAROID [2]	JAMES LANDIS MARTIN	TX	614	18	683	11/5/45	NE	BS, Northwestern '68	JD, Northwestern '73	Legal	6	
BATTLE MOUNTAIN GOLD	KARL E. ELERS	TX	182	-35	740	9/26/38	IL	BS '60/BS '61, U of Ariz.		Production	6	
BAUSCH & LOMB	DANIEL E. GILL	NY	1709	171	2790	6/24/36	IL	BS, Northwestern '58		Finance	15	
BAXTER INTERNATIONAL	VERNON R. LOUCKS JR.	IL	8471	561	7375	10/24/34	IL	BA Yale 57	MBA, Harvard '63	Administration	28	
BAYBANKS	WILLIAM M. CROZIER JR.	MA	911	59	929	10/2/32	NY	BA, Yale '54	MBA, Harvard '63	Finance	30	
BB&T FINANCIAL	JOHN A. ALLISON IV	NC	581	76	1029	8/14/48	NC	BS, U. of N.C. '71	MBA, Duke '74	Adm/Banking	23	
BEAR STEARNS	JAMES E. CAYNE	NY	2677	295	2705	2/14/34	IL	Purdue		Finance	24	
BECKMAN INSTRUMENTS	LOUIS THOMAS ROSSO	CA	909	44	634	8/13/33	CA	AB San Francisco St '55	MBA U of Santa Clara '67	Tech/Mktg	35	
BECTON, DICKINSON	RAYMOND V. GILMARTIN	NJ	2365	201	2793	3/6/41	DC	BS, Union '63	MBA, Harvard '68	Administration	17	
BED BATH & BEYOND	WARREN EISENBERG	NJ	217	16	852	8/20/30	MA			Marketing	22	22
BELL ATLANTIC	RAYMOND W. SMITH	PA	12647	1382	26576	9/24/37	PA	BS, Carnegie Mellon '59	MBA, U. of Pittsburgh '60	Finance	34	

EXECUTIVE TO WATCH

▶ Eager to join the cable TV revolution, he went to court challenging a federal law that block Baby Bells from relaying TV signals to their regional customers. In August, he won. The decisi likely to be appealed by the cable industry. Still, he's retooling the Bell Atlantic Corp. system can send movies to households. A part-time playwright/actor who's active in amateur theate wants to get into the programming business as well.

BELLSOUTH	JOHN L. CLENDENIN	GA	15149	1658	28261	5/8/34	TX	BA, Northwestern '55		Technical	38	10
BELO (A. H.)	ROBERT W. DECHERD	TX	516	37	927	4/9/51	TX	AB, Harvard '73		Administration	20	7
BEMIS	JOHN H. ROE	MN	1181	57	1088	12/21/39	MN	BA, Williams '62	MBA, Harvard '64	Marketing	29	3
BENEFICIAL	FINN M. W. CASPERSEN	DE	1819	148	1989	10/27/41	NY	BA, Brown '63	LLB, Harvard '66	Legal	21	17
BERKLEY (W. R.)	WILLIAM ROBERT BERKLEY	CT	567	46	807	10/31/45	NJ	BA, NYU '66	MBA, Harvard '68	Finance	26	26
BERKSHIRE HATHAWAY	WARREN EDWARD BUFFETT	NE	3029	407	19947	8/30/30	NE	BS, U. of Neb. '50	MS, Columbia '51	Finance	28	24
BEST BUY	RICHARD M. SCHULZE	MN	1620	20	659	1/2/41	MN			Marketing	27	27
BETHLEHEM STEEL	CURTIS H. BARNETTE	PA	4008	-199	1240	1/9/35	WV	BA, W. Va. U. '56	JD, Yale '62	Legal	26	1
BETZ LABORATORIES	JOHN F. McCAUGHAN	PA	707	82	1401	6/24/35	Canada	AB, Sir Geo. Williams '57		Administration	33	12
BEVERLY ENTERPRISES	DAVID RUSSELL BANKS	AR	2597	4	754	2/15/37	WI	BS, U. of Ark. '59		Finance	24	4
BHC COMMUNICATIONS	HERBERT J. SIEGEL	NY	308	109	1937	5/7/28	PA	BA, Lehigh '50		Entrepreneur	16	16
BIC	BRUNO BICH	CT	417	40	713	10/2/46	France	BS, NYU '69		Finance	18	10
BIOGEN	JAMES LOUIS VINCENT	MA	124	38	1038	12/15/39	PA	BS, Duke '61	MBA, Wharton '63	Management	8	8
BIOMET	DANE ALAN MILLER	IN	335	64	994	2/7/46	OH	BS, GMI '69	PhD, Cincinnati '74	Technical	16	16
BLACK & DECKER	NOLAN D. ARCHIBALD	MD	4780	-73	1692	6/22/43	UT	BS, Weber St '68	MBA, Harvard '70	Marketing	8	8
BLOCK (H&R)	THOMAS M. BLOCH	MO	1495	181	4294	3/14/54	MO	BA Claremont McKenna 76		Operations	17	1
BLOCK DRUG	LEONARD N. BLOCK	NJ	625	62	730	12/21/11	NY	BS, U. of Pa. '33		Mktg/Finance	60	30
BLOCKBUSTER ENTERTAINMENT	H. WAYNE HUIZENGA	FL	1200	142	5467	12/29/37	IL	Calvin		Entrepreneur	5	6
BMC SOFTWARE	MAX P. WATSON JR.	TX	239	65	1502	11/21/45	LA	BBA, La. Tech '68	U. of Ill.	Sales/Mktg	8	3
BOATMEN'S BANCSHARES	ANDREW B. CRAIG III	MO	2001	215	2986	3/20/31	NY	BA, U. of Buffalo '55		Finance	8	6
BOB EVANS FARMS	DAVID E. EVANS	OH	653	43	770	8/24/36	OH	Ohio Wesleyan Ohio St		Operations	38	22
BOEING	FRANK SHRONTZ	WA	30184	1554	13205	12/14/31	ID	LLB, U of Idaho '54	MBA, Harvard '58	Sales/Mgmt	35	7
BOISE CASCADE	JOHN B. FERY	ID	3716	154	797	2/16/30	WA	BA, U. of Wash. '53	MBA, Stanford '55	Prodn/Adm	37	21

THE CORPORATE ELITE

	CEO	HDQ LOC	SALES $ MIL	PROFITS $ MIL	MKT VAL $ MIL	BORN	PLACE	COLLEGE EDUCATION	GRADUATE STUDY	CAREER PATH	TENURE COMPANY	TENURE CEO	PAY $ THOUS
Y	ROBERT E. M. NOURSE	TX	232	8	830	8/20/38	Canada	BBC, Queen's (Canada) '59	MBA, W. Ontario '64; PhD, Harvard '67	Marketing	26	2	1075
N	ANTHONY S. D'AMATO	NY	7143	-211	2397	6/22/30	NY	BS, Brooklyn Poly. '52	Northeastern	Tech/Adm	34	2	735
N EDISON	BERNARD W. REZNICEK	MA	1412	107	1433	12/7/36	NE	BS, Creighton '58	MBA, U. of Neb. '79	Finance	6	3	692
N SCIENTIFIC	PETER MICHAEL NICHOLAS	MA	315	57	1387	5/16/41	NH	AB, Duke '64	MBA, Wharton '68	Marketing	14	14	560
ER	ANTHONY P. GAMMIE	SC	1494	-93	731	12/17/34	England			Production	38	11	550
& STRATTON	FREDERICK P. STRATTON JR.	WI	1139	70	1164	3/25/39	WI	BS, Yale '61	MBA, Stanford '63	Finance	20	16	731
R INTERNATIONAL	NORMAN EUGENE BRINKER	TX	519	36	1650	6/3/31	CO	BS, San Diego St. '57		Marketing	10	10	959
L-MYERS SQUIBB	RICHARD L. GELB [3]	NY	11156	1538	28893	6/8/24	NY	BA, Yale '48	MBA, Harvard '50	Mktg/Finance	43	22	2011
LYN UNION GAS	ROBERT B. CATELL	NY	1075	60	1189	2/1/37	NY	BS, CCNY '58	MS, CCNY '64	Technical	35	2	447
-FORMAN	OWSLEY BROWN II	KY	1415	156	2191	9/10/42	KY	BA, Yale '64	MBA, Stanford '66	Finance	25	0	702
ING-FERRIS INDUSTRIES	WILLIAM DOYLE RUCKELSHAUS	TX	3287	176	3995	7/24/32	IN	BA, Princeton '57	LLB, Harvard '60	Legal/Govt	5	5	806
'S	RONALD GREGORY BRUNO	AL	2658	56	849	12/24/51	AL	BS, U. of Ala. '73		Marketing	20	3	339
WICK	JACK FRANK REICHERT	IL	2059	40	1428	9/27/30	WI	BA, Wis/Milwaukee '57		Marketing	36	11	1278
GTON INDUSTRIES EQUITY	FRANK S. GREENBERG	NC	2066	-89	1127	9/11/29	IL	BA, U. of Chicago '49		Marketing	40	7	1829
GTON NORTHERN	GERALD GRINSTEIN	TX	4630	299	4797	6/26/32	WA	BA, Yale '54	LLB, Harvard '57	Legal	6	5	1156
GTON RESOURCES	THOMAS HOWARD O'LEARY	WA	1141	190	6790	3/19/34	NY	BA, Holy Cross '54	MBA, Wharton '61	Finance	11	5	1446
OLDING	PETER C. VALLI	CA	433	42	634	2/1/27	NY	Colby	LLB, Boston U. '52	Administration	34	6	636
TRON SYSTEMS	S. ROBERT LEVINE	NH	418	83	3039	1/29/58	MA	BS, U. of Miami '80		Marketing	11	11	52
ISION SYSTEMS	CHARLES F. DOLAN	NY	572	-251	1035	10/16/26	OH	John Carroll		Entrepreneur	20	B	1000
	SAMUEL W. BODMAN	MA	1557	62	946	11/26/38	IL	BS, Cornell '61	PhD, MIT '64	Tech/Finance	7	6	721
S WORLD	HENRY GLUCK	CA	928	73	1110	5/11/28	Germany	BS, Wharton '50		Management	11	11	1988
RNIA ENERGY	DAVID L. SOKOL	NE	128	39	633	9/8/56	NE	BS, U. of Neb. '78		Management	3	3	NA
AY GOLF	ELY R. CALLAWAY	CA	132	19	897	6/3/19	GA	AB, Emory '40		Marketing	11	11	800
ELL SOUP	DAVID WILLIS JOHNSON	NJ	6263	491	9764	8/7/32	Australia	BS, U. of Sydney '54	MBA, U. of Chicago '58	Marketing	4	4	1393
. CITIES/ABC	DANIEL B. BURKE	NY	5344	389	8328	2/4/29	NY	BA, U. of Vt '50	MBA, Harvard '55	Communs	32	3	908
HOLDING	IRVING WIDMAR BAILEY II	KY	2853	322	4269	6/8/41	MA	BA, U. of Colo. '63	MBA, NYU '68	Finance	13	5	1269
AL DISTRIBUTION	ROBERT D. WALTER	OH	1967	34	770	7/13/45	OH	BSME, Ohio U. '67	MBA, Harvard '70	Administration	22	22	717
ARK INTERNATIONAL	C. A. LANCE PICCOLO	IL	1461	27	1233	7/6/40	MA	BS, Boston U. '62		Marketing	1	1	659

EXECUTIVE TO WATCH

▶ A visionary who saw the profit potential of home health care back in the 1970s, he'll now have to scramble to stay ahead of a growing list of competitors. Maybe acquisitions will help. He recently added to his chain of outpatient clinics. He's also cutting prices to appeal to cost-conscious health insurers. But price rivalry's a double-edged sword. His home-infusion business is hurting because of price wars. Most analysts believe earnings could be flat this year.

AL CRUISE LINES	MICKY ARISON	FL	1474	282	5716	6/29/49	Israel	U. of Miami		Marketing	19	14	695
NA POWER & LIGHT	SHERWOOD H. SMITH JR.	NC	2767	380	5324	9/1/34	FL	AB, U. of N.C. '56	JD, U. of N.C. '60	Legal	28	14	617
-WALLACE	HENRY H. HOYT JR.	NY	656	47	1425	8/10/27	NJ	AB, Princeton '49		Marketing	43	19	1596
LLAR	DONALD V. FITES	IL	10194	-218	8292	1/20/34	IN	BS, Valparaiso '56	MS, MIT '71	Marketing	37	3	550
USTRIES	JOHN E. JONES	IL	1666	71	1052	6/24/34	MO	BS, Carleton '56	Chicago, Northwestern	Finance	14	4	952
	LAURENCE ALAN TISCH	NY	3503	163	3805	3/15/23	NY	BS, NYU '42	MA, U. of Pa '43	Entrepreneur	7	7	1573
OR ENERGY	ROBERT J. FARLING	OH	2438	277	2553	12/4/36	OH	BSEE, Case Tech '58	MBA, Western Reserve '65	Mgmt/Finance	34	2	319
	LAURENCE E. HIRSCH	TX	2503	61	1191	12/19/45	NY	BS, Wharton '68	JD, Villanova '71	Legal	9	5	794
L & SOUTH WEST	E. R. BROOKS	TX	3289	404	6193	7/30/37	TX	BS, Tex. Tech '61		Technical	32	4	593
L BANCSHARES OF THE SOUTH	D. PAUL JONES JR.	AL	608	74	920	9/26/42	AL	BS, U. of Ala. '64	JD, U. of Ala. '67; LLM, NYU '68	Finance/Legal	15	2	770
L FIDELITY BANKS	CARROLL L. SAINE	VA	696	79	1123	9/14/34	NC	BA, Lenoir Rhyne '54	MS, U. of Richmond '65	Finance	36	18	732
L MAINE POWER	MATTHEW HUNTER	ME	878	64	745	4/12/33	RI	U. of Me		Personnel	41	3	302
L NEWSPAPERS	FRANK E. RUSSELL	IN	434	23	704	12/6/20	IN	AB, U. of Evansville '42	JD, Indiana '51	Finance/Legal	34	15	426
Y COMMUNICATIONS	LEONARD TOW	CT	312	-61	784	5/30/28	NY	AB, Brooklyn '50	MA '52/PhD '60, Columbia	Mgmt/Finance	20	20	2958
Y TELEPHONE ENTERPRISES	GLEN F. POST III	LA	357	60	1516	10/4/52	AR	BS, La. Tech '74	MBA, La. Tech '76	Finance	17	2	394
N	LAWRENCE PERLMAN	MN	830	-29	729	4/8/38	MN	BA, Carleton '60	JD, Harvard '63	Legal	13	4	1046
ON INTERNATIONAL	ANDREW C. SIGLER	CT	4926	14	3044	9/25/31	NY	AB, Dartmouth '53	MBA, Amos Tuck '56	Marketing	36	19	1150
NG SHOPPES	DAVID V. WACHS	PA	1179	81	1218	4/26/26	PA	BS, Wharton '48		Marketing	43	6	998
MANHATTAN	THOMAS G. LABRECQUE	NY	11125	639	6320	9/17/38	NJ	BA, Villanova '60	American, NYU	Finance	29	3	1381
AL BANKING	JOHN F. McGILLICUDDY	NY	12174	1086	10229	12/30/30	NY	BA, Princeton '52	LLB, Harvard '55	Finance	2	2	2250
AL WASTE MANAGEMENT	D. P. (PAT) PAYNE	IL	1519	130	1906	9/21/42	TX	BS, Tex. A&M '64	St. Edward's	Marketing	3	2	456
N	KENNETH TINDALL DERR	CA	37464	2210	29946	8/4/36	PA	BS, Cornell '59	MBA, Cornell '60	Management	33	5	1559
NE SOFTWARE	ELI OXENHORN	NY	51	21	927	2/1/47	NY	BA, Queens '69		Technical	9	9	213
) & NORTH WESTERN HOLDINGS	ROBERT SCHMIEGE	IL	985	37	861	5/24/41	WI	AB, Notre Dame '63	JD, Notre Dame '66	Legal	25	5	488

THE CORPORATE ELITE

[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
CHIRON	EDWARD E. PENHOET	CA	79	-49	2004	12-5-40	CA	AB Stanford 63	PhD U of Wash 68	Research	10
CHRIS-CRAFT	HERBERT J. SIEGEL	NY	220	65	1033	2-7-28	PA	BA Lehigh 50		Entrepreneur	30
CHRYSLER	ROBERT J. EATON	MI	33100	505	15200	2-13-40	CO	BS U of Kan 63		Technical	1
CHUBB	DEAN RAYMOND O'HARE	NJ	4900	617	7866	6-21-42	NJ	BS NYU 63	MBA Pace 68	Finance	30
CIGNA	WILSON H. TAYLOR	PA	18080	337	4660	2-27-43	CT	BS Trinity 64		Finance	29
CINCINNATI BELL	DWIGHT H. HIBBARD	OH	1126	104	1005	7-20-23	WA	BA Amherst 47 BSEE MIT 49		Technical	29
CINCINNATI FINANCIAL	ROBERT B. MORGAN	OH	1094	177	2994	1-13-34	KY	AB Centre Ky 54		Insurance	28
CINCINNATI GAS & ELECTRIC	JACKSON H. RANDOLPH	OH	1330	200	2163	12-27-30	OH	BBA Cincinnati 58	MBA Cincinnati 68	Finance	34
CINCINNATI MILACRON	DANIEL J. MEYER	OH	789	8	737	5-31-36	IN	BS Purdue 58	MBA Indiana 63	Finance	24
CINTAS	RICHARD THIEL FARMER	OH	400	42	1220	9-30-34	KY	BA Miami U (Ohio) 56		Marketing	26
CIPSCO	CLIFFORD L. GREENWALT	IL	749	77	772	1-19-33	NM	BS U of Mo 56	MBA U of Ill 77	Technical	30
CIRCUIT CITY STORES	RICHARD L. SHARP	VA	3270	78	1459	4-12-47	DC	U of Va, William & Mary		Technical	11
CIRCUS CIRCUS ENTERPRISES	WILLIAM G. BENNETT	NV	843	107	2778	11-16-24	AZ	Phoenix		Mktg, Adm, Op	19
CISCO SYSTEMS	JOHN P. MORGRIDGE	CA	340	84	6470	7-18-33	IL	BBA U of Wis 55	MBA Stanford 57	Sales, Mktg	5
CITICORP	JOHN SHEPARD REED	NY	31948	722	10481	2-7-39	IL	BS MIT 61 BA Wash & Jefferson 61	MS MIT 65	Banking	28
CITIZENS	JOHN H. O'BRIEN	MA	161	13	198	Age 56	MA	AB Harvard 61	MBA Harvard 66	Finance	4
CITIZENS UTILITIES	LEONARD TOW	CT	488	91	2457	3-16-28	NY	AB Brooklyn 50	MA 52, PhD 60 Columbia	Finance, Mgmt	4
CLARK EQUIPMENT	LEO J. McKERNAN	IN	902	28	760	2-17-38	PA	Univ NYS, Bridgeport		Administration	18
CLAYTON HOMES	JAMES L. CLAYTON	TN	317	34	700	2-3-34	TN	BS U of Tenn 56	JD U of Tenn 64	Marketing	27
CLOROX	G. CRAIG SULLIVAN	CA	1717	118	2540	2-1-40	NY	BS Boston Coll 64		Sales	22
CML GROUP	CHARLES M. LEIGHTON	MA	664	37	795	6-4-35	NE	BA Bowdoin 57	MBA Harvard 61	Sales	24
CMS ENERGY	WILLIAM T. McCORMICK JR.	MI	3077	186	2011	4-12-44	DC	BS Cornell 66	PhD MIT 69	Govt, Mgmt	8
CNA FINANCIAL	LAURENCE ALAN TISCH	IL	9782	-660	5090	3-5-23	NY	BS NYU 42	MA U of Pa 43	Entrepreneur	5

EXECUTIVE TO WATCH

This pinstriped investor is enjoying the success of his CBS TV network and overnight [illegible] David Letterman. But results from the insurance unit are another story. A $276 million net [illegible] from Hurricane Andrew and a $2 billion addition to reserves for asbestos claims have [illegible] 21%. That earns a [illegible] for its property, casualty unit. Tisch hopes [illegible] insurance pricing in 1993 will help him out of the tough spot.

[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
COASTAL	OSCAR SHERMAN WYATT JR.	TX	10063	107	2550	7-11-24	TX	BS Tex A&M 49		Entrepreneur	38
COCA-COLA	ROBERTO C. GOIZUETA	GA	13074	1884	55781	11-18-31	Cuba	BS Yale 53		Technical	39
COCA-COLA ENTERPRISES	SUMMERFIELD K. JOHNSTON JR.	GA	5127	-15	1866	8-29-32	TN	U of Va, Vanderbilt		Operations	1
COLEMAN	LAWRENCE M. JONES	KS	494	23	770	4-29-33	OH	BS Illinois 55	MBA 61, DBA 63 Harvard	Marketing	42
COLGATE-PALMOLIVE	REUBEN MARK	NY	7007	477	7939	1-21-39	NJ	AB Middlebury 60	MBA Harvard 63	Marketing	30
COLTEC INDUSTRIES	DAVID I. MARGOLIS	NY	1349	61	1220	1-24-30	NY	BBA CCNY 50	MBA CCNY 53	Finance	30
COLUMBIA GAS SYSTEM	JOHN H. CROOM	DE	2500	8	977	6-12-32	NC	BS N C State 54		Tech, Mktg	29
COLUMBIA HEALTHCARE	RICHARD L. SCOTT	FL	807	24	4000	2-1-53	IL	BBA U of Mo 75	JD SMU 78	Legal	5
COMCAST	BRIAN L. ROBERTS	PA	900	-38	4467	6-28-59	PA	BA Wharton 81		Finance, Op	17
COMERICA	EUGENE A. MILLER	MI	2378	205	3010	9-8-37	MI	BA Detroit Tech 64		Finance	38
COMMERCE BANCSHARES	DAVID W. KEMPER	MO	444	70	987	11-20-50	MO	BA Harvard 72	MA Oxford 74 MBA Stanford 76	Fin, Banking	15
COMMONWEALTH EDISON	JAMES J. O'CONNOR	IL	6026	514	5477	3-15-37	IL	BS Holy Cross 58	MBA Harvard 60 JD Georgetown 63	Administration	30
COMPAQ COMPUTER	ECKHARD PFEIFFER	TX	4100	213	4207	8-20-41	Germany	BS Kaufm Berufsschule 63	MBA SMU 81	Marketing	10
COMPUTER ASSOCIATES INTERNATIONAL	CHARLES B. WANG	NY	1848	148	4511	8-19-44	China	BS Queens 67		Tech, Sales	17
COMPUTER SCIENCES	WILLIAM RAY HOOVER	CA	2480	78	1478	1-2-30	UT	BS U of Utah 51	MS U of Utah 54	Technical	30
COMPUWARE	PETER KARMANOS JR.	MI	220	25	677	3-11-43	MI	Wayne St.		Administration	20
COMSAT	BRUCE L. CROCKETT	MD	564	61	1113	1-24-44	AZ	AB U of Colorado 66	MBA Columbia 77	Finance	12
CONAGRA	PHILIP B. FLETCHER	NE	21219	372	6187	9-18-32	AR	BS U Louisville 54	MBA MIT 73	Production	6
CONRAIL	JAMES A. HAGEN	PA	3345	232	4033	2-27-32	MN	BA St. Ambrose 54	MA Iowa U 58	Marketing	2
CONSECO	STEPHEN C. HILBERT	IN	1128	171	1077	1-22-46	IN	Ind State		Insurance	14
CONSOLIDATED EDISON CO. OF N.Y.	EUGENE R. McGRATH	NY	5933	604	6667	3-4-42	NY	BME Manhattan 63	MBA Iona 68	Technical	30
CONSOLIDATED NATURAL GAS	GEORGE A. DAVIDSON JR.	PA	3187	87	4086	7-28-38	PA	BS U of Pittsburgh 60		Adm, Op	27
CONSOLIDATED PAPERS	GEORGE W. MEAD	WI	945	72	1868	4-11-27	WI	BS Yale 50	MS Inst Paper Chem 52	Tech, Prod	42
CONSOLIDATED STORES	WILLIAM H. KELLEY	OH	929	37	699	8-23-44	PA	BBA U of Wis 68		Marketing	4
CONTEL CELLULAR	DONALD J. MAHONEY	GA	187	-71	1824	2-28-41	IL	BS Marquette 63	MBA Marquette 71	Marketing	3
CONTINENTAL BANK	THOMAS C. THEOBALD	IL	7911	220	1020	5-5-37	OH	AB Holy Cross 58	MBA Harvard 60	Marketing	6
CONTINENTAL CORP	JOHN P. MASCOTTE	NY	4888	17	1062	10-9-39	MO	BS Rockhurst 61	LLB U of Va 64	Insurance	10
COOPER INDUSTRIES	ROBERT CIZIK	TX	6159	361	5810	4-4-31	PA	BS U of Conn 53	MBA Harvard 58	Planning	32

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COOPER TIRE & RUBBER	IVAN WILLIAM GORR	OH	1175	108	2214	10/15/29	OH	BBA, U. of Toledo '51		Finance	21	
COORS (ADOLPH)	WILLIAM K. COORS	CO	1551	36	735	8/11/16	CO	BS, Princeton '38	MS, Princeton, '39	Tech/Prod	54	
COPLEY PHARMACEUTICAL	JANE C.I. HIRSH	MA	52	12	657	4/8/42	NJ	BS, U. of Conn. '65		Production	20	
CORESTATES FINANCIAL	TERRENCE A. LARSEN	PA	2134	262	3368	9/12/46	IL	BA, U. of Dallas '68	PhD, Tex. A&M '71	Finance	16	
CORNING	JAMES R. HOUGHTON	NY	3744	266	6226	4/6/36	NY	AB, Harvard '58	MBA, Harvard '62	Marketing	31	
COSTCO WHOLESALE	JAMES SINEGAL	WA	6621	113	2095	1/1/36	PA	San Diego St		Marketing	11	
COUNTRYWIDE CREDIT INDUSTRIES	DAVID S. LOEB	CA	654	140	1711	1/19/24	NY	BS, NYU '51		Finance	25	
CPC INTERNATIONAL	CHARLES R. SHOEMATE	NJ	6599	431	6738	12/10/39	IL	BS, Western Ill. '62	MBA, U. of Chicago '73	Mktg/Fin/Prodn	31	
CRACKER BARREL OLD COUNTRY	DANNY WOOD EVINS	TN	401	34	1476	10/11/35	TN	Geo. Washington		Entrepreneur	24	
CRANE	ROBERT SHELDON EVANS	CT	1307	24	883	3/20/44	PA	BA, U. of Pa. '66	MBA, Columbia '68	Finance	19	
CRESTAR FINANCIAL	RICHARD GRANVILLE TILGHMAN	VA	1082	80	1669	9/18/40	VA	BA, U. of Va. '63		Finance	27	
CROMPTON & KNOWLES	VINCENT A. CALARCO	CT	518	43	1058	5/29/42	NY	BS, Polytechnic U. '63	MBA, Harvard '70	Marketing	8	
CROWN CORK & SEAL	WILLIAM JOSEPH AVERY	PA	3781	155	3095	6/20/40	IL	U. of Chicago		Mktg/Prodn	34	
CSX	JOHN W. SNOW	VA	8734	20	8098	8/2/39	OH	BA, U. of Toledo '62	PhD, U. of Va. '65, LLB, Geo. Washington '67	Legal	16	
CUC INTERNATIONAL	WALTER A. FORBES	CT	739	59	3304	11/13/42	IL	BS, Northwestern '61	MSJ, Northwestern '65; MBA, Harvard '68	Mktg/Finance	17	
CUMMINS ENGINE	HENRY BREWER SCHACHT	IN	3749	67	1433	10/16/34	PA	BS, Yale '56	MBA, Harvard '62	Finance	29	
CYPRUS MINERALS	MILTON HAWKINS WARD	CO	1641	246	1297	8/1/32	AL	BS, U. of Ala. '55	MSE, U. of Ala. '74 MBA, U. of N.M. '81	Tech/Mgmt	1	
DANA	SOUTHWOOD J. MORCOTT	OH	5036	43	2507	4/12/38	GA	AB, Davidson '60	MBA, U. of Mich. '64	Mktg/Prodn	30	
DANAHER	GEORGE M. SHERMAN	DC	954	32	1016	8/6/41	NY	BS, Long Island '63	MBA, Louisville '71	Prodn/Mktg	4	
DAUPHIN DEPOSIT	WILLIAM J. KING	PA	375	57	743	3/13/29	PA	BBA, U. of Pa. '71	MBA, LaSalle '79	Finance	14	
DAYTON HUDSON	KENNETH A. MACKE	MN	17927	383	4796	12/16/38	IA	BS, Drake '61		Marketing	32	
DEAN FOODS	HOWARD M. DEAN	IL	2289	62	1074	6/27/37	IL	BBA, SMU '60	MBA, Northwestern '61	Finance	28	
DEAN WITTER, DISCOVER	PHILIP J. PURCELL	NY	5184	439	6518	9/5/43	UT	BBA, Notre Dame '64	MS, London Sch. Econ. '66; MBA, U. of Chicago '67	Finance	15	

EXECUTIVE TO WATCH

▶No sooner does he win independence from Sears, Roebuck & Co. than the takeover talk begins. In June, the retailing giant spun off its 80% stake in finance arm to shareholders. The September, the stock started soaring on merger speculation. Wall Street reckons J.P. Morgan Co. and NationsBank Corp. could be possible buyers. This father of seven, who commutes weekly from his Chicago home to his New York office, says there's no deal in the works.

DEERE	HANS W. BECHERER	IL	6847	37	5610	4/19/35	MI	BA, Trinity '57	MBA, Harvard '62	Marketing	31	
DELL COMPUTER	MICHAEL S. DELL	TX	2014	102	673	2/23/65	TX	U. of Tex.		Mktg/Prodn	9	
DELMARVA POWER & LIGHT	HOWARD E. COSGROVE	DE	864	99	1440	4/12/43	PA	BS, U. of Va. '66	MBA, U. of Del. '70	Tech/Mktg	27	
DELTA AIR LINES	RONALD W. ALLEN	GA	10837	506	2721	11/20/41	GA	BIE, Ga. Tech '64		Personnel	30	
DELUXE	HAROLD V. HAVERTY	MN	1534	203	3025	5/17/30	MI			Production	40	
DENTSPLY INTERNATIONAL	JOHN J. McDONOUGH	IL	156	15	863	6/13/36	IL	BS, Notre Dame '58		Finance	0	
DESTEC ENERGY	CHARLES F. GOFF	TX	508	87	1070	1/2/41	TX	BBA, U. of Tex. '63		Production	5	
DETROIT EDISON	JOHN E. LOBBIA	MI	3558	588	5201	7/12/41	IL	BS, U. of Detroit '64		Mktg/Finance	29	
DIAL	JOHN W. TEETS	AZ	3389	28	1884	9/15/33	IL	Elgin Comm.		Management	30	
DIAMOND SHAMROCK	ROGER R. HEMMINGHAUS	TX	2603	26	749	8/27/36	MO	BS, Auburn '58	Bettis Atomic Power, LSU	Technical	10	
DIEBOLD	ROBERT W. MAHONEY	OH	544	41	1169	9/10/36	NY	BS, Villanova '58	MBA, Roosevelt '61	Marketing	11	
DIGITAL EQUIPMENT	ROBERT B. PALMER	MA	13931	2310	5413	9/11/40	TX	BS, Tex. Tech. '62	MS, Tex. Tech. '65	Technical	8	
DILLARD DEPARTMENT STORES	WILLIAM THOMAS DILLARD	AR	4883	236	4209	9/2/14	AR	BSBA, U. of Ark. '35	MSBA, Columbia '37	Retailing	55	55
DISCOVERY ZONE	DONALD F. FLYNN	IL	9	6	925	8/11/39	IL	BS, Marquette '61		Finance	1	
DISNEY (WALT)	MICHAEL DAMMANN EISNER	CA	7504	817	21566	3/7/42	NY	BA, Denison '64		Management	9	
DOLE FOOD	DAVID H. MURDOCK	CA	3375	65	1924	4/10/23	MO			Fin/Entrepreneur	8	
DOLLAR GENERAL	CAL TURNER JR.	TN	921	36	1078	1/25/40	KY	BA, Vanderbilt '62		Administration	28	16
DOMINION RESOURCES	THOS. E. CAPPS	VA	3791	475	7857	10/31/35	NC	BA, U. of N.C. '58	JD, U. of N.C. '66	Legal	9	
DONNELLEY (R.R.) & SONS	JOHN R. WALTER	IL	4193	235	4700	1/20/47	PA	BS, Miami U. (Ohio) '69		Sales	24	
DOVER	GARY L. ROUBOS	NY	2272	129	2976	11/7/36	CO	BS, U. of Colo. '59	MBA, Harvard '63	Mktg/Prodn	18	
DOW CHEMICAL	FRANK POPOFF	MI	18971	276	16457	10/27/35	Bulgaria	BS, Indiana '57	MBA, Indiana '59	Marketing	34	
DOW JONES	PETER R. KANN	NY	1818	118	3180	12/13/42	NJ	BA, Harvard '64		Journalism	29	
DPL	PETER H. FORSTER	OH	1034	148	2174	5/28/42	Germany	BS, U. of Wis. '64	JD, Brooklyn '72	Tech/Legal	20	
DQE	WESLEY W. von SCHACK	PA	1185	151	1953	4/15/44	NY	AB, Fordham '65	MBA, St. John's '71; PhD, Pace '90	Finance/Adm	9	

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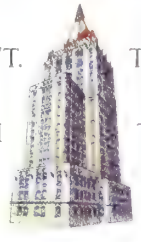
GET RICH SLOW. THAT HAS BEEN OUR PHILOSOPHY FOR THE PAST 148 YEARS. IT'S ONE THAT HAS ENABLED US TO PAY DIVIDENDS ON WHOLE LIFE POLICIES CONTINUOUSLY THROUGH EVERY STOCK MARKET CRASH, DEPRESSION, RECESSION, AND BOTH WORLD WARS. IT ALSO GAVE US THE WISDOM TO AVOID THE REAL ESTATE TRAP THAT BEFELL MANY INVESTORS DURING THE MONEY-MAD EIGHTIES. WE HAVE ALWAYS BELIEVED IN QUALITY, CONSERVATIVE JUDGMENT. NOT BRASH AND FLASH. SO AT A TIME WHEN COUNTLESS OTHERS WERE RUNNING HEADLONG INTO FORECLOSURE, WE WERE INVESTING PRIMARILY IN INVESTMENT-GRADE, FIXED-INCOME SECURITIES. ALL THE WHILE MAINTAINING A PROFITABLE PRESENCE IN SELECTIVE REAL ESTATE, VENTURE CAPITAL, ENERGY AND CONVERTIBLE SECURITIES. AS A RESULT, OUR CLIENTS HAVE CONTINUED TO PROSPER AT A TIME WHEN MANY OTHERS HAVEN'T. TO FIND OUT HOW YOU TOO CAN PROFIT FROM SUCH THINKING, CALL US AT 1-800-695-4331. BECAUSE WHEN IT COMES TO INVESTING,

NEW YORK LIFE



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THE CORPORATE ELITE

COMPANY	CEO	HDQ LOC	SALES $ MIL	PROFITS $ MIL	MKT VAL $ MIL	BORN	PLACE	COLLEGE EDUCATION	GRADUATE STUDY	CAREER PATH	TENURE COMPANY	TENURE CEO	T
DR PEPPER/SEVEN-UP	JOHN R. ALBERS	TX	659	-8	1121	10/5/31	MN	BA, U. of Minn. '57		Marketing	22	9	

EXECUTIVE TO WATCH

▶ This cattle rancher and 35-year beverage-industry veteran could face a hostile takeover. Speculation started after Cadbury Schweppes PLC upped its stake in Dr Pepper to 26% in Aug from almost 6%. The British company, which just bought A&W Brands Inc., won't reveal its plan But his company, which went public in January, would be quite a catch. Sales are strong, thank to hot-selling Diet Dr Pepper and bright prospects abroad.

DRESSER INDUSTRIES	JOHN JOSEPH MURPHY	TX	3797	70	3161	11/24/31	NY	BS, RIT '52	MBA, SMU '81	Tech/Prodn	41	10	
DREYFUS	HOWARD M. STEIN	NY	342	91	1531	10/6/26	NY			Finance	38	23	
DSC COMMUNICATIONS	JAMES L. DONALD	TX	536	12	3110	7/5/31	TX	BS, SMU '57	MS, SMU '65	Tech/Mgmt	13	12	
DUKE POWER	WILLIAM STATES LEE	NC	3970	508	8604	6/23/29	NC	BS, Princeton '51		Technical	39	11	
DUN & BRADSTREET	CHARLES W. MORITZ	NY	4751	554	11100	8/22/36	DC	BA, Yale '58		Marketing	33	9	
DUPONT	EDGAR S. WOOLARD JR.	DE	37208	975	32665	4/15/34	NC	BS, N C State '56		Tech/Prodn	36	4	
DURACELL INTERNATIONAL	C. ROBERT KIDDER	CT	1617	167	3615	9/8/44	NY	BS, U. of Mich. '67	MS, Iowa State '69	Mktg/Finance	14	9	
DWG	NELSON PELTZ	FL	1275	-8	709	6/24/42	NY	Wharton		Entrepreneur	0	0	
E-SYSTEMS	E. GENE KEIFFER	TX	2095	109	1593	8/25/29	TX	BS, SMU '55	MS, SMU '62	Technical	43	4	
EASTMAN KODAK	KAY R. WHITMORE [4]	NY	20183	994	20100	7/24/32	UT	BS, U. of Utah '57	MS, MIT '75	Technical	36	3	
EATON	WILLIAM BUTLER	OH	3869	137	3373	3/10/31	IL	BS, U. of Ill. '56		Production	36	2	
ECHLIN	FREDERICK J. MANCHESKI	CT	1783	64	1638	7/21/26	WI	BS, U. of Wis. '48		Production	31	24	
ECOLAB	PIERSON M. GRIEVE	MN	1005	64	1391	12/5/27	MI	BA, Northwestern '50	U. of Minn.	Administration	11	11	
EDISON BROTHERS STORES	ANDREW E. NEWMAN	MO	1509	71	650	8/14/44	MO	AB, Harvard '66	MBA, Harvard '68	Marketing	23	6	
EDWARDS (A.G.)	BENJAMIN F. EDWARDS III	MO	1074	119	1283	10/26/31	MO	BA, Princeton '53		Finance	37	26	1
EG&G	JOHN M. KUCHARSKI	MA	2789	88	1114	2/10/36	WI	BS, Marquette 58	JD, Geo. Washington '65	Technical	21	6	
EL PASO NATURAL GAS	WILLIAM A. WISE	TX	803	76	1475	7/10/45	IA	BA, Vanderbilt '67	JD, U. of Colo. '70	Legal	23	4	
ELECTRONIC ARTS	LAWRENCE F. PROBST III	CA	298	31	1583	6/3/50	PA	BSBA, U. of Del. '72		Sales/Distrib	9	2	
ELECTRONIC DATA SYSTEMS	LESTER M. ALBERTHAL JR.	TX	8155	636	7469	2/27/44	TX	BBA, U. of Tex 68		Technical	25	7	
EMC	MICHAEL C. RUETTGERS	MA	349	29	2918	12/11/42	OK	BS, Idaho State '64	MBA, Harvard '67	Tech	5	2	
EMERSON ELECTRIC	CHARLES F. KNIGHT	MO	7706	663	13600	1/20/36	IL	BS Cornell 58	MBA, Cornell '59	Consulting	21	20	1
ENGELHARD	ORIN R. SMITH	NJ	2397	100	2622	8/13/35	NJ	AB, Brown '57	MBA, Seton Hall '64	Marketing	17	9	1
ENQUIRER/STAR GROUP	PETER J. CALLAHAN	FL	275	19	720	2/12/42	NY	BBA, St. Francis '63	MBA, Columbia '64	Finance	4	4	
ENRON	KENNETH LEE LAY	TX	6325	336	8433	4/15/42	MO	BA'64/MA'65, U. of Mo.	PhD, U. of Houston '70	Economics	9	9	2
ENRON OIL & GAS	FORREST E. HOGLUND	TX	453	98	3920	7/1/33	KS	BS, U. of Kan. '56		Technical	6	6	
ENSERCH	DAVID W. BIEGLER	TX	2825	-13	1440	8/21/46	TX	BS, St. Mary's '68		Technical	27	0	
ENTERGY	EDWIN LUPBERGER	LA	4116	501	6785	6/5/36	GA	AB, Davidson '58	MBA, Emory '63	Finance	15	8	
EQUIFAX	C. B. ROGERS JR.	GA	1134	85	1788	10/24/29	NY	BA, Gettysburg '51	MBA, Geo. Washington '62	Marketing	6	4	
EQUITABLE	RICHARD H. JENRETTE	NY	6282	-32	3738	4/5/29	NC	BA, U. of N C. '51	MBA, Harvard '57	Finance	9	3	1
EQUITABLE OF IOWA	FREDERICK SHELTON HUBBELL	IA	458	57	1030	4/25/51	IA	BA, U of N C. 73	JD, U. of Iowa '76	Mgmt/Finance	10	4	
EQUITABLE RESOURCES	DONALD I. MORITZ	PA	812	60	1351	10/23/27	PA	BS, U. of Pittsburgh '48	LLB, U. of Pittsburgh '51	Legal	41	15	
ETHYL	BRUCE C. GOTTWALD	VA	2975	269	2175	9/28/33	VA	BS, VMI '54	U. of Va., Inst. Paper Chem.	Production	37	1	
EXXON	LEE R. RAYMOND	TX	103160	4810	81178	8/13/38	SD	BS, U. of Wis. '60	PhD, U. of Minn. '63	Tech/Mgmt	30	0	1
FAMILY DOLLAR STORES	LEON LEVINE	NC	1159	56	1063	6/8/37	NC	Wingate, U. of Miami		Marketing	34	34	1
FANNIE MAE	JAMES A. JOHNSON	DC	14559	1649	21502	12/24/43	MN	BA, U. of Minn. '65	MA, Princeton '68	Finance	4	3	1
FEDERAL EXPRESS	FREDERICK WALLACE SMITH	TN	7808	110	3271	8/11/44	MS	BA, Yale '66		Transport	22	18	
FEDERAL HOME LOAN MORTGAGE	LELAND C. BRENDSEL	VA	4461	622	9554	4/22/42	SD	BS U of Colo 67	PhD, Northwestern '74	Finance	11	8	1
FEDERAL PAPER BOARD	JOHN R. KENNEDY	NJ	1461	83	987	9/21/30	NY	BS, Georgetown '52		Marketing	41	26	1
FEDERAL REALTY INVESTMENT TRUST	STEVEN JAY GUTTMAN	MD	100	9	748	7/19/46	PA	BA, U. of Pittsburgh '68	JD, Geo. Washington '72	Real estate	21	13	
FEDERAL SIGNAL	JOSEPH J. ROSS	IL	518	34	847	9/26/45	IL	BA, St. Mary's '67	JD, DePaul '69	Legal	10	6	
FEDERAL-MOGUL	DENNIS J. GORMLEY	MI	1264	4	735	11/28/39	NY	BS, RPI '63		Tech/Mktg/Prodn	31	4	
FEDERATED DEPARTMENT STORES	ALLEN I. QUESTROM	OH	7305	133	2527	4/13/40	MA	BS, Boston U. '65		Marketing	28	4	1
FERRO	ALBERT CHARLES BERSTICKER	OH	1098	59	996	3/22/34	OH	BA, Miami U. (Ohio) '56	MS, Miami U. (Ohio) '58	Management	35	2	
FHP INTERNATIONAL	WESTCOTT WILKEN PRICE III	CA	1586	33	835	5/6/39	CA	BS, U. of Colo. '61	MBA, USC '67	Management	12	3	
FIFTH THIRD BANCORP	GEORGE A. SCHAEFER JR.	OH	895	164	3186	5/17/45	OH	BS, U.S. Mil. Acad. '67	MBA, Xavier '74	Banking	22	3	
FINA	RONALD WAYNE HADDOCK	TX	3394	24	979	7/29/40	IL	BS Purdue 63		Tech/Ops/Mgmt	7	5	
FINGERHUT	THEODORE DEIKEL	MN	1606	62	1155	10/5/35	MN	U. of Minn.		Marketing	4	4	1
FIRST ALABAMA BANCSHARES	JAMES STANLEY MACKIN	AL	656	95	1194	7/30/32	AL	BS, Auburn '54		Banking	27	3	
FIRST AMERICAN	DENNIS C. BOTTORFF	TN	523	42	878	9/19/44	TN	BE, Vanderbilt '66	MBA, Northwestern '68	Fin/Banking	2	2	
FIRST BANK SYSTEM	JOHN F. GRUNDHOFER	MN	1864	124	3491	1/1/39	CA	BA, Loyola '60	MBA, USC '64	Finance	4	4	1
FIRST BRANDS	ALFRED E. DUDLEY	CT	989	42	705	9/12/28	OH	BS, Bowling Green '51		Mktg/Prodn	7	7	
FIRST CHICAGO	RICHARD L. THOMAS	IL	4358	-114	3759	1/11/31	OH	BA, Kenyon '53	MBA, Harvard '58	Banking	35	2	1

"King George IV was up here, back in 1822. He would drink nothing but The Glenlivet®."

– Sandy Milne, our Resident Sage.

Sandy Milne and trusty companion, Ambrose

His Majesty was gracing Scotland with a state visit at the time. He brought with him a powerful thirst for The Glenlivet single malt Scotch.

As his host's daughter, Elizabeth Grant, recorded in her memoirs: "Lord Coryingham, the Chamberlain, was looking everywhere for the pure Glenlivet whisky: the King drank nothing else."

A bottle was swiftly brought up from the cellar and pressed into the king's hands. "What is not recorded," says our own Sandy Milne, "is whether His Majesty gave anyone else a sniff of the stuff."

What is a single malt Scotch?

A single malt is Scotch the way it was originally: one single whisky, from one single distillery. Not, like most Scotch today, a blend of many whiskies. The Glenlivet single malt Scotch whisky should therefore be compared to a château-bottled wine. Blended Scotch is more like a mixture of wines from different vineyards.

The Glenlivet. The Father of All Scotch.

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We supplied assignment employees from secretaries to R&D and lab technicians. Plus three dedicated facilitators on-site who manage and coordinate the Olsten assignment employees.

3. AMAZING RESULTS

Efficiency is up. Productivity is up. Johnson Wax is up. The Director of Human Resources says, "Olsten is doing a great job. We couldn't be happier with the results."

COMPANY	CEO	HDQ LOC	SALES $ MIL	PROFITS $ MIL	MKT VAL $ MIL	BORN	PLACE	COLLEGE EDUCATION	GRADUATE STUDY	CAREER PATH	TENURE COMPANY	TENURE CEO	
FIRST COLONY	BRUCE C. GOTTWALD JR.	VA	1283	163	1565	12/6/57	VA	BA, VMI '81	MBA, William & Mary '84	Finance	9	1	0
FIRST COMMERCE	IAN ARNOF	LA	495	72	740	7/26/39	TN	BS, Vanderbilt '61	MBA, Harvard '63	Finance	15	10	1
FIRST DATA	HENRY C. DUQUES	NY	1205	141	4058	6/16/43	DC	BS, Geo. Washington '65	MBA, Geo. Washington '67	Finance	6	6	5
FIRST EMPIRE STATE	ROBERT G. WILMERS	NY	890	98	968	4/20/34	NY	AB, Harvard '56	Harvard	Banking	11	10	1
FIRST FIDELITY BANCORPORATION	ANTHONY P. TERRACCIANO	NJ	2462	314	3404	10/27/38	NJ	AB, St. Peter's '60	MA, Fordham '62	Banking	4	4	3

EXECUTIVE TO WATCH

▶ This tough-talking, chain-smoking banker is on the acquisition trail. Having resuscitated First Fidelity, he's snapping up banks in Connecticut, New Jersey, New York, and Pennsylvania. The Bayonne (N.J.)-born philosophy major is still shopping for more. And he has the bucks to spen thanks to his biggest shareholder, Banco Santander, one of Spain's largest banks.

FIRST FINANCIAL MANAGEMENT	PATRICK H. THOMAS	GA	1388	16	2719	8/29/42	GA	BS, Ga. State '71		Banking/Tech	22	19	4
FIRST HAWAIIAN	WALTER ARTHUR DODS JR.	HI	547	87	910	5/26/41	HI	BBA, Hawaii/Manoa '68		Marketing	25	4	
FIRST INTERSTATE BANCORP	EDWARD M. CARSON	CA	4102	282	4615	11/6/29	AZ	BA, Ariz. State '51		Finance	42	3	
FIRST OF AMERICA BANK	DANIEL R. SMITH	MI	1857	169	2285	3/19/34	MI	BBA, Western Mich. '55	Northwestern	Finance	38	8	
FIRST SECURITY	SPENCER FOX ECCLES	UT	680	87	1090	8/24/34	UT	BS, U. of Utah '56	MBA, Columbia '59	Finance	33	12	
FIRST TENNESSEE NATIONAL	RONALD A. TERRY	TN	824	89	1122	12/5/30	TN	BS, Memphis St. '52	SMU	Banking	36	20	1
FIRST UNION	EDWARD E. CRUTCHFIELD JR.	NC	4355	515	7499	7/14/41	MI	AB, Davidson '63	MBA, Wharton '65	Finance	28	9	1
FIRST USA	JOHN C. TOLLESON	TX	479	39	1530	8/16/48	TX	SMU		Finance	18	8	
FIRST VIRGINIA BANKS	ROBERT H. ZALOKAR	VA	602	97	1172	5/25/27	KS	BS, U. of Kan. '50		Finance	38	9	
FIRSTAR	ROGER L. FITZSIMONDS	WI	1199	166	2145	5/21/38	WI	BBA, U. of Wis. '60	MBA, U. of Wis. '71	Banking	29	3	
FISERV	GEORGE D. DALTON	WI	332	23	792	3/3/28	IL	Northwestern		Finance/Tech	32	10	
FISHER-PRICE [5]	RONALD J. JACKSON	NY	694	41	1018	Age 49	MI	BA, Mich. State '65	MBA, Mich. State '66	Mktg/Finance	3	3	1
FLEET FINANCIAL GROUP	TERRENCE MURRAY	RI	4852	280	4255	7/11/39	RI	BA, Harvard '62		Real estate	31	5	1
FLEET MORTGAGE GROUP	ANDREW D. WOODWARD JR.	SC	598	109	855	8/7/46	SC	BS, U. of S.C. '69		Finance	24	1	
FLEETWOOD ENTERPRISES	JOHN C. CREAN	CA	1942	57	1039	7/4/25	ND			Prod design	43	43	1
FLEMING	E. DEAN WERRIES	OK	12954	119	1213	5/8/29	KS	BS, U. of Kan. '52		Mktg/Ops	39	5	
FLIGHTSAFETY INTERNATIONAL	ALBERT LEE UELTSCHI	NY	278	82	1131	5/15/17	KY			Training	42	42	
FLORIDA PROGRESS	JACK B. CRITCHFIELD	FL	2095	192	3183	5/23/33	PA	BS, Slippery Rock '55	MA '60/EdD '67, U. of Pittsburgh	Management	10	4	
FLOWERS INDUSTRIES	AMOS RYALS McMULLIAN	GA	879	32	717	8/28/37	FL	BS, Fla. St. '62	Fla State	Finance	31	12	
FLUOR	LESLIE G. McCRAW	CA	6601	135	3687	11/3/34	SC	BS, Clemson '56		Technical	7	4	1
FMC	ROBERT N. BURT	IL	3974	193	1765	5/24/37	OH	BS, Princeton '59	MBA, Harvard '64	Planning/Mgmt	20	2	
FOOD LION	TOM E. SMITH	NC	7196	178	2842	5/2/41	NC	AB, Catawba '64		Retailing	23	8	1
FORD MOTOR	HAROLD A. POLING	MI	100132	-502	25482	10/14/25	MI	BA, Monmouth '49	MBA, Indiana '51	Finance	43	4	1
FOREST LABORATORIES	HOWARD SOLOMON	NY	285	64	1495	8/12/27	NY	BS, CCNY '49	LLB, Yale '52	Legal	18	17	
FOSTER WHEELER	LOUIS E. AZZATO	NJ	2495	46	1185	10/8/30	NY	BS, CCNY '52		Technical	41	12	8
FOUNDATION HEALTH	DANIEL D. CROWLEY	CA	1143	46	647	10/19/47	NY			Health care	4	4	3
FOURTH FINANCIAL	DARRELL G. KNUDSON	KS	425	53	653	7/16/37	SD	BA, Augustana '59		Finance	3	2	5
FPL GROUP	JAMES L. BROADHEAD	FL	5193	511	7277	11/28/35	NY	BME, Cornell '58	JD, Columbia '63	Management	5	5	12
FRANKLIN RESOURCES	CHARLES B. JOHNSON	CA	385	124	3725	1/6/33	NJ	BA, Yale '54		Finance	36	22	
FREEPORT-McMORAN	JAMES R. MOFFETT	LA	1655	188	2701	8/16/38	LA	BS, U. of Tex. '61	MS, Tulane '63	Technical	26	9	20
FREEPORT-McMORAN COPPER & GOLD	JAMES R. MOFFETT	NV	714	130	3929	8/16/38	LA	BS, U. of Tex. '61	MS, Tulane '63	Technical	26	9	
FRUIT OF THE LOOM	WILLIAM FARLEY	IL	1855	189	2469	10/10/42	RI	AB, Bowdoin '64	JD, Boston Coll. '69	Finance	8	8	35
FUND AMERICAN ENTERPRISES HOLDINGS	JOHN J. BYRNE	VT	249	54	856	7/11/32	NJ	BS, Rutgers '54	MS, U. of Mich '59	Fin/Actuarial	8	8	7
GANNETT	JOHN J. CURLEY	VA	3469	346	7515	12/31/38	PA	BA, Dickinson '60	MS, Columbia '63	Journalism	24	7	1
GAP (THE)	DONALD GEORGE FISHER	CA	2960	211	4126	9/3/28	CA	BS, Cal/Berkeley '50		Real estate	24	24	13
GATX	JAMES J. GLASSER	IL	1019	29	779	6/5/34	IL	AB, Yale '55	JD, Harvard '58	Legal/Mgmt	32	15	6
GAYLORD ENTERTAINMENT	EARL W. WENDELL	TN	644	29	2031	8/17/27	OH	BA, Coll. of Wooster '50		Administration	2	2	7
GEICO	OLZA M. NICELY [6]	DC	2418	173	4168	6/26/43	VA	BBA, Georgia Coll. '86		Insurance	32	0	
GENENTECH	G. KIRK RAAB	CA	496	21	4806	9/27/35	NY	AB, Colgate '59		Marketing	9	4	10
GENERAL DYNAMICS	JAMES R. MELLOR	VA	3472	248	2936	5/3/30	MI	BS, U. of Mich. '52	MS, U. of Mich. '53	Technical	12	0	38
GENERAL ELECTRIC	JOHN FRANCIS WELCH	CT	56274	4305	83706	11/19/35	MA	BS, U. of Mass '57	MS '58/PhD '60, U. of Ill.	Technical	33	12	35
GENERAL INSTRUMENT	DANIEL F. AKERSON	IL	1075	-41	3021	10/31/48	CA	BS, U.S. Naval Acad. '70	MS, London Sch. Econ. '78	Technical	0	0	
GENERAL MILLS	H.B. (BRUCE) ATWATER JR.	MN	8135	506	10011	4/19/31	MN	AB, Princeton '52	MBA, Stanford '54	Marketing	35	12	13

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Good

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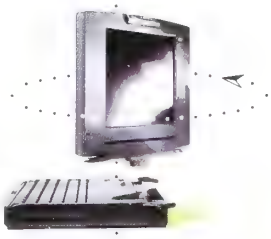
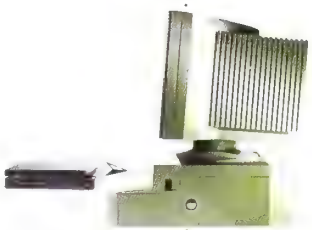
It opens flat up to 180°.



Or flips around in just seconds.



There's even a docking station™ available for desktop simplicity.

oy.

The UltraLite® Versa™ notebook gives new meaning to the term "faithful companion."

Versa functions as a pen based tablet to enter notes or data

The reversible screen makes presentations a snap

The UltraLite Versa is truly a breed apart. It's versatile and adapts easily to meet your changing needs, whatever and wherever. For example, switch from a mono to color screen, or put in more hard-drive memory. And despite its heavy-duty technology, the Versa weighs as little as 6 pounds.

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The UltraLite Versa is the first of a new series of computer products from NEC designed to work together with enhanced functionality and advanced ergonomics.

With the UltraLite Versa you can choose your own best friend.

Features/Options

Versa's many standard and optional features provide exceptional upgradability and flexibility, to give you the power to choose the system you need today and then enhance its features as your needs change.

Battery

- DoubleTime™ technology, for increased battery power
- Long-life NiMH battery pack: 2.5 to 5 hours (color) and 4 to 6 hours (mono)
- Optional secondary battery: for a total of 5 to 10 hours (color) and 8 to 12 hours (mono)

Storage and memory

- Choice of 120MB, 180MB, or 250MB easily removable hard drives; no tools required
- Slide-in memory cards, for upgradability from 4MB all the way to 20MB**

Processor

- i486SL processor, 25MHz or 33MHz
- Built-in numeric coprocessor and 8KB cache

Screen

- High-speed local bus video and desktop-level 640 X 480 display
- NEC-upgradable to pen capability,** mono or color
- Standard 9.4" STN sidelit Super VGA monochrome screen, with 64 shades of gray
- Optional 9.45" TFT active-matrix Super VGA color screen, with wide-angle viewing and 256-color display out of a possible 226,000

Docking Station

- 2 full-sized ISA slots, for expandability
- 3 drive bays: 2 external 5.25" and 1 internal 3.5"
- Integrated microphone and headphone ports

Pointing Device

- Custom Ballpoint™ mouse standard

VersaPad

NEC's new VersaPad™, the ideal platform for corporate pen computing. Perfect for data collection and transmission needs, including inventory control, sales force automation and merchandising.

- Full-function i486SL portable tablet computer
- Slim 4-pound design with VGA transflective screen for clear indoor/outdoor viewing
- 2 PCMCIA Type II slots, for flexible communications and storage
- NiMH battery options and advanced power management, for long battery life
- Available with all major pen computing environments, including Windows for Pen Computing™ and PenPoint™ software

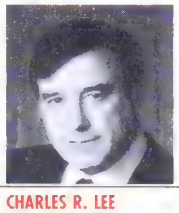
THE CORPORATE ELITE

	CEO	HDQ LOC	SALES $ MIL	PROFITS $ MIL	MKT VAL $ MIL	BORN	PLACE	COLLEGE EDUCATION	GRADUATE STUDY	CAREER PATH	TENURE COMPANY	TENURE CEO	PAY $ THOUS
RAL MOTORS	JOHN F. SMITH JR.	MI	130590	-2621	33444	4/6/38	MA	BA, U. of Mass. '60	MBA, Boston U. '65	Finance	32	1	748

EXECUTIVE TO WATCH

▶ Racing to remake the ailing auto giant, he's making good on his promise to stanch the flow of red ink in North American auto operations. But the defection in March of J. Ignacio Lopez de Arriortua to Volkswagen was a blow—compounded by GM's subsequent charges that Lopez took sensitive GM documents with him. The more immediate challenge, however, will be tough labor negotiations this fall.

RAL NUTRITION	WILLIAM E. WATTS	PA	454	5	813	11/27/52	NY	BA, SUNY/Buffalo '74		Management	18	3	627
RAL PUBLIC UTILITIES	JAMES R. LEVA	NJ	3434	288	3728	5/10/32	NJ	BS, Fairleigh Dickinson '60	JD, Seton Hall '80	Administration	41	2	591
RAL RE	RONALD E. FERGUSON	CT	3387	596	11050	1/16/42	IL	BA, Blackburn '63	MS, U. of Mich. '65	Actuarial	24	7	1078
RAL SIGNAL	EDMUND M. CARPENTER	CT	1618	9	1458	12/28/41	OH	BS, U. of Mich. '63	MBA, U. of Mich. '64	Technical	5	5	1146
ICS INSTITUTE	GABRIEL SCHMERGEL	MA	88	-37	917	5/14/40	Hungary	BSME, RPI '62	MBA, Harvard '67	Management	12	12	410
A PHARMACEUTICALS	DAVID F. HALE	CA	31	-38	645	1/8/49	AL	BA, Jacksonville St. '70		Sales/Mktg	6	6	434
NE PARTS	LARRY L. PRINCE	GA	3669	220	4565	10/4/38	TN	Memphis St.		Mktg/Dist/Ops	35	4	733
YME	HENRI A. TERMEER	MA	219	-31	866	2/28/46	Netherlands	U. of Rotterdam	MBA, U. of Va. '73	Management	10	8	660
GIA GULF	JERRY R. SATRUM	GA	779	46	810	11/6/44	OR	BS, Ore. State '68		Finance	9	3	420
GIA-PACIFIC	A. D. CORRELL	GA	11847	-60	5641	4/28/41	GA	BS, U. of Ga. '63	MS '66/MS '67, U. of Me.	Production	5	0	1102
R PRODUCTS	ALFRED A. PIERGALLINI	MI	1293	133	1928	8/1/46	PA	BA, Lafayette '68	MBA, U. of Chicago '70	Marketing	4	4	506
FOOD	ISRAEL COHEN	MD	3473	82	1380	11/21/12	Palestine			Operations	57	16	1247
NGS & LEWIS	JOSEPH R. COPPOLA	WI	623	36	807	9/28/30	MA	BS, U. of Mass. '59		Production	0	0	NA
TE	ALFRED M. ZEIEN	MA	5163	513	11737	2/25/30	NY	BS, Webb Inst. '52	Harvard	Technical	25	3	1380
ELTER (P.H.)	THOMAS C. NORRIS	PA	540	57	754	5/9/38	PA	BA, Gettysburg '60		Finance	33	13	508
L MARINE	CHARLES R. LUIGS	TX	260	28	727	4/4/33	IN	BS, U. of Tex. '57		Sales/Mgmt	16	16	549
GHES ELECTRONICS	C. MICHAEL ARMSTRONG	CA	12169	-49	2940	10/18/38	MI	BS, Miami U. (Ohio) '61		Marketing	2	2	NA
N WEST FINANCIAL	HERBERT M. SANDLER	CA	2026	284	2648	11/16/31	NY	BS, CCNY '51	JD, Columbia '54	Legal	30	30	814
RICH (B.F.)	JOHN D. ONG	OH	2526	-9	1230	9/29/33	OH	BA/MA, Ohio St. '54	LLB, Harvard '57	Legal	32	14	988
YEAR TIRE & RUBBER	STANLEY C. GAULT	OH	11785	367	6117	1/6/26	OH	BS, Coll. of Wooster '48		Marketing	2	2	1854
(W.R.)	J. P. BOLDUC	FL	5518	79	3527	7/17/39	ME	BA, St. Cloud State '61		Finance	11	1	1452
GER (W.W.)	DAVID WILLIAM GRAINGER	IL	2364	137	2965	10/23/27	IL	BS, U. of Wis. '50		Administration	42	26	778
ATLANTIC & PACIFIC TEA	JAMES WOOD	NJ	10499	-99	1065	1/19/30	England	CB, Loughborough '55		Operations	13	13	1140
LAKES CHEMICAL	EMERSON KAMPEN	IN	1496	233	4880	3/12/28	MI	BS, U. of Mich. '51		Mktg/Prodn	42	21	1071
WESTERN FINANCIAL	JAMES F. MONTGOMERY	CA	3318	54	2285	11/30/34	KS	BS, UCLA '57		Finance	33	14	1669
TREE FINANCIAL	LAWRENCE M. COSS	MN	247	72	1457	11/5/38	SD			Finance	18	18	5118
MAN	RENSO L. CAPORALI	NY	3492	120	1290	4/12/33	NY	BCE '54/MME '60, Clarkson	MAE '62/MA '63/ PhD '64, Princeton	Technical	34	3	760



EXECUTIVE TO WATCH

▶ He used to fly U.S. Navy early-warning aircraft over the Pacific. Now, he is piloting the contractor through rough weather caused by the defense downturn. He spent decades building carrier-based planes, but no new airframe projects are coming on stream. So he's reducing his work force—by more than 20% since 1990. An aeronautical engineer, he is also focusing on new products, such as the J-STARS surveillance aircraft and information systems for customers such as the IRS.

	CHARLES R. LEE	CT	19984	1787	34443	2/15/40	PA	BS, Cornell '62	MBA, Harvard '64	Finance	10	1	1851
HOLDINGS	GUY B. SNOWDEN	RI	501	38	1232	9/11/45	NY	Syracuse, Pace, Elizabeth		Technical	13	13	1313
TATES UTILITIES	JOSEPH L. DONNELLY	TX	1773	134	2124	3/17/29	PA	BS, U. of Scranton '50	JD, U. of Pa. '53	Legal/Fin	14	2	484
MONETICS	JOHN F. WHITE	MA	216	25	700	4/4/44	MD	BA, William Jewell '67	MBA, Wharton '69	Marketing	17	10	810
URTON	THOMAS H. CRUIKSHANK	TX	6525	-123	4578	11/3/31	LA	BA, Rice '52	U. of Tex., U. Houston	Finance/Legal	24	10	800
(M.A.)	MARTIN D. WALKER	OH	1330	26	742	6/25/32	IN	BS, GMI '54	MBA, Mich. State '70	Production	7	7	910
FORD BROTHERS	HUGH G. FARRINGTON	ME	2066	49	893	2/12/45	NH	BA, Dartmouth '67	MAT, U. of N.H. '68	Marketing	25	1	518
URT GENERAL	ROBERT J. TARR JR.	MA	3745	114	3279	12/7/43	NY	BS, U.S. Naval Acad. '66 MA, Tufts '76	MBA, Harvard '73,	Operations	17	2	1925
ND (JOHN H.)	ROBERT R. WOODSON	GA	445	57	872	4/18/32	GA	BS, U. of Ga. '58		Finance	29	3	360
-DAVIDSON	RICHARD F. TEERLINK	WI	1105	54	1622	10/12/36	IL	BS, Bradley '61	MBA, U. of Chicago '76	Finance	12	5	711
	JOHN THOMAS HARTLEY	FL	3004	87	1621	3/4/30	FL	BS'51/BSEE'55, Auburn	Auburn	Technical	37	7	1234
)	MALCOLM W. GAMBILL	PA	1625	92	1035	6/9/30	NC	BE, Yale '53		Production	38	6	625
RD STEAM BOILER INSPECTION	WILSON WILDE	CT	682	56	1027	9/24/27	CT	AB, Williams '49		Insurance	40	22	611
)	ALAN G. HASSENFELD	RI	2541	179	3280	11/16/48	RI	BA, U. of Pa. '70		Production	23	4	1452
AN ELECTRIC INDUSTRIES	ROBERT F. CLARKE	HI	1031	68	962	4/13/42	CA	BA, Cal/Berkeley '65	MBA, Cal/Berkeley '66	Finance	7	3	352
SPITAL CORP. OF AMERICA	THOMAS F. FRIST JR.	TN	5126	28	3423	8/12/38	TN	BA, Vanderbilt '61	MD, Wash. U. (Mo.) '65	Health care	25	8	1068
CARE PROPERTY INVESTORS	KENNETH B. ROATH	CA	84	36	801	12/17/35	CA	BS, San Diego St. '63		Finance	9	9	656
MANAGEMENT ASSOCIATES	WILLIAM J. SCHOEN	FL	278	22	647	8/2/35	CA	BS, USC '60	MBA, USC '63	Marketing	10	8	808

COMPANY	CEO	HDQ LOC	SALES $ MIL	PROFITS $ MIL	MKT VAL $ MIL	BORN	PLACE	COLLEGE EDUCATION	GRADUATE STUDY	CAREER PATH	TENURE COMPANY	TENURE CEO
HEALTHTRUST	R. CLAYTON McWHORTER	TN	2265	93	1623	9/27/33	TN	BS, Samford '55		Health care	23	6
HEILIG-MEYERS	WILLIAM CHARLES DeRUSHA	VA	658	38	1458	1/10/50	VA	BS, Va. Commonwealth '75		Mktg/Finance	24	9
HEINZ (H.J.)	ANTHONY J.F. O'REILLY	PA	7103	530	9570	5/7/36	Ireland	BC Law, U. Coll. Dublin '58	PhD, U. of Bradford '80	Mktg/Legal	24	14
HELMERICH & PAYNE	HANS CHRISTIAN HELMERICH	OK	230	11	890	9/4/58	OK	BS, Dartmouth '81		Management	12	4
HERCULES	THOMAS L. GOSSAGE	DE	2865	168	3653	5/7/34	TN	BS, Ga. Tech '56	MS, Ga. Tech. '57	Technical	6	3
HERSHEY FOODS	RICHARD A. ZIMMERMAN	PA	3220	243	4284	4/6/32	PA	BA, Penn State '53		Operations	35	10
HEWLETT-PACKARD	LEWIS E. PLATT	CA	16410	881	18487	4/11/41	NY	BS, Cornell '64	MBA, Wharton '66	Tech/Mgmt	27	1
HIBERNIA	STEPHEN A. HANSEL	LA	443	-8	636	8/13/47	NJ	BA, Wesleyan '69	MBA, Colgate '71	Banking	2	2
HILLENBRAND INDUSTRIES	W AUGUST HILLENBRAND	IN	1430	106	2891	9/18/40	IN	BS, St. Joseph's '65		Mktg/Prodn	33	4
HILTON HOTELS	BARRON HILTON	CA	1203	104	2199	10/23/27	TX			Management	42	28
HOME DEPOT	BERNARD MARCUS	GA	7148	363	18350	5/12/29	NJ	BS, Rutgers '54		Marketing	15	15
HOME SHOPPING NETWORK	GERALD F. HOGAN	FL	1098	37	1104	11/30/45	IL	BA, St. Ambrose '68		Marketing	1	1
HOMESTAKE MINING	HARRY M. CONGER	CA	660	-176	2621	7/22/30	WA	BS, Colo. Mines '55		Technical	18	15
HON INDUSTRIES	JACK D. MICHAELS	IA	707	39	825	8/30/37	WV	BSME, Cincinnati '60		Production	4	2
HONEYWELL	MICHAEL R. BONSIGNORE	MN	6223	400	5144	4/3/41	NY	BS, U.S. Naval Acad. '63	Tex. A&M	Marketing	24	1
HORACE MANN EDUCATORS	PAUL J. KARDOS	IL	704	72	847	3/20/37	PA	BS, Grove City '62		Finance	16	11
HORMEL FOODS	RICHARD L. KNOWLTON	MN	2814	95	1610	6/9/32	MN	BA, U. of Colo. '54		Mktg/Prodn	39	12
HOSPITALITY FRANCHISE SYSTEMS	HENRY R. SILVERMAN	NJ	198	20	721	8/2/40	NY	BA, Williams '61	LLB, U. of Pa. '64	Finance	3	3
HOUGHTON MIFFLIN	NADER FARHANG DAREHSHORI	MA	455	19	637	12/15/36	Iran	BA, Wis/Oshkosh '66		Sales	27	3
HOUSEHOLD INTERNATIONAL	DONALD CAMERON CLARK	IL	4181	191	3542	8/9/31	NY	BBA, Clarkson '53	MBA, Northwestern '61	Finance	38	11
HOUSTON INDUSTRIES	DON D. JORDAN	TX	4596	380	6064	5/9/32	TX	BBA, U. of Tex. '54	JD, South Tex. '69	Mktg/Adm	37	16
HUBBELL	G. JACKSON RATCLIFFE	CT	786	94	1671	3/22/36	WV	AB, Duke '58	JD, U. of Va. '61	Finance/Legal	19	6
HUMANA	DAVID A. JONES	KY	2811	-114	2025	8/7/31	KY	BS, U. of Louisville '54	JD, Yale '60	Entrepreneur	1	1
HUNT (J.B.) TRANSPORT SERVICES	JAMES KIRK THOMPSON	AR	912	37	918	7/28/53	AR	BSBA, U. of Ark. '78		Finance	20	7
HUNTINGTON BANCSHARES	FRANK G. WOBST	OH	1259	139	2450	11/14/33	Germany	U of Erlangen '55	Goettingen '58	Fin/Banking	19	13
BP	ROBERT L. PETERSON	NE	11128	64	1045	7/14/32	NE	U. of Neb.		Production	32	14
IDAHO POWER	JOSEPH W. MARSHALL	ID	498	60	1159	9/21/38	ID	BS, U.S. Naval Acad. '61		Technical	24	4
IDB COMMUNICATIONS GROUP	JEFFREY P. SUDIKOFF	CA	155	9	813	8/14/55	MA	BS, Dartmouth '77		Enterpreneur	10	10
IES INDUSTRIES	LEE LIU	IA	678	50	934	3/30/33	China	BS, Iowa St. '57		Technical	36	10
ILLINOIS CENTRAL	E. HUNTER HARRISON	IL	547	73	1290	11/7/44	TN	BA, Memphis St. '68	Emory	Operations	4	1
ILLINOIS POWER	LARRY D. HAAB	IL	1479	122	1910	9/28/37	IL	BS, Millikin '59		Finance	28	2
ILLINOIS TOOL WORKS	JOHN D. NICHOLS	IL	2812	192	4440	9/20/30	China	BA, Harvard '53	MBA, Harvard '55	Production	14	12
IMC FERTILIZER GROUP	WENDELL F. BUECHE	IL	1059	91	653	11/7/30	MI	BS, Notre Dame '52		Production	1	1
IMCERA GROUP	C. RAY HOLMAN	IL	1703	129	2235	10/22/42	AR	BS, U of Mo '64		Finance	7	1
INFORMATION RESOURCES	GIAN MARK FULGONI	IL	276	19	940	1/24/48	Wales	BS, U. of Manchester '69	MA, Lancaster '70	Marketing	13	8
INFORMIX	PHILLIP ELLIOTT WHITE	CA	284	48	1280	12/24/43	IL	BA, Ill. Wesleyan '65	MBA, Ill. State '68	Marketing	5	5
INGERSOLL-RAND	JAMES E. PERRELLA [7]	NJ	3784	116	3990	5/30/35	NY	BSME, Purdue '60	MSIM, Purdue '61	Administration	31	0
INLAND STEEL INDUSTRIES	ROBERT J. DARNALL	IL	3494	-159	979	3/30/38	IL	BA, DePauw '60; BS, Columbia '62	MBA, U. of Chicago '73	Production	31	1
INTEGRA FINANCIAL	WILLIAM F. ROEMER	PA	890	113	1583	9/21/33	OH	BA, Princeton '55		Banking	24	15
INTEL	ANDREW S. GROVE	CA	5844	1067	26465	9/2/36	Hungary	BS, CCNY '60	PhD, Cal/Berkeley '63	Technical	25	6
INTERCO	RICHARD B. LOYND	MO	1266	158	669	12/1/27	PA	BEE, Cornell '50		Marketing	5	4
INTERNATIONAL BUSINESS MACHINES	LOUIS V. GERSTNER JR.	NY	64523	-6865	25197	3/1/42	NY	BA, Dartmouth '63	MBA, Harvard '65	Mktg/Consulting	1	1
INTERNATIONAL FLAVORS & FRAGRANCES	EUGENE P. GRISANTI	NY	1126	177	4350	10/24/29	NY	AB, Holy Cross '51	LLB, Boston U. '53; LLM, Harvard '54	Legal	33	8
INTERNATIONAL GAME TECHNOLOGY	JOHN J. RUSSELL	NV	399	65	4403	12/7/29	OK	Long Beach St		Finance	8	0
INTERNATIONAL PAPER	JOHN A. GEORGES	NY	13598	142	8092	2/24/31	TX	BS, U. of Ill. '51	MBA, Drexel '57	Technical	14	9
INTERNATIONAL SPECIALTY PRODUCTS	SAMUEL J. HEYMAN	NJ	571	57	712	3/1/39	NY	BS, Yale '60	LLB, Harvard '63	Legal	10	2
INTERPUBLIC GROUP	PHILIP HENRY GEIER JR.	NY	1804	112	2245	2/22/35	MI	BA, Colgate '57	MS, Columbia '58	Marketing	35	14
IOWA-ILLINOIS GAS & ELECTRIC	STANLEY J. BRIGHT	IA	498	45	778	4/21/40	NY	BBA, Geo. Washington '63		Finance	7	2
IPALCO ENTERPRISES	JOHN R. HODOWAL	IN	633	92	1436	2/16/45	OH	BS, Purdue '66	JD, Indiana '70	Finance/Legal	25	4
ITEL	ROD DAMMEYER	IL	1682	-60	943	11/5/40	OH	BS, Kent State '62		Finance	8	1
ITT	RAND V. ARASKOG	NY	21651	-260	11178	10/30/31	MN	BS, U.S. Mil. Acad. '53	Harvard	Mktg/Prodn	27	14
IVAX	PHILLIP FROST	FL	451	45	1650	11/11/36	PA	AB, U. of Pa. '57	MD, Albert Einstein '61	Technical	6	6

EXECUTIVE TO WATCH

▶ He quieted a shareholder revolt by linking his compensation to stock performance. He al pledged to nearly double return on equity to 15% by 1995. To make that ambitious goal, he sold ITT Corp.'s 30% stake in Alcatel and tightened operations. With health-care reforms looming, ITT's Hartford Life sold its medical and dental insurance business. The strategy is pa off: The company's stock is up 30% since January.

THE CORPORATE ELITE

NY	CEO	HDQ LOC	SALES $ MIL	PROFITS $ MIL	MKT VAL $ MIL	BORN	PLACE	COLLEGE EDUCATION	GRADUATE STUDY	CAREER PATH	TENURE COMPANY	TENURE CEO	PAY $ THOUS
MES RIVER CORP. OF VIRGINIA	ROBERT C. WILLIAMS	VA	4728	-122	1744	1/24/30	OH	ME, Cincinnati '53	MBA, Xavier '57	Technical	34	3	1396
ERSON-PILOT	DAVID A. STONECIPHER	NC	1202	203	2704	3/29/41	TN	BS, Vanderbilt '62	MBA, Ga. State '67	Finance	1	1	NA
N NUVEEN	RICHARD J. FRANKE	IL	221	63	1566	6/23/31	IL	BA, Yale '53	MBA, Harvard '57	Finance	36	19	3591
NSON & JOHNSON	RALPH S. LARSEN	NJ	13753	1625	26442	11/19/38	NY	BS, Hofstra '62		Prodn/Mktg	29	4	1741
NSON CONTROLS	JAMES H. KEYES	WI	5157	123	2317	9/2/40	WI	BS, Marquette '62	MBA, Northwestern '73	Finance	27	6	979
S APPAREL GROUP	SIDNEY KIMMEL	PA	437	41	672	1/16/28	PA	Temple		Administration	23	18	750
ENS	H. WILLIAM LURTON	MN	876	61	902	9/18/29	CT	BA, Principia '51		Adm/Ops/Sales	38	22	723
NSAS CITY POWER & LIGHT	DRUE JENNINGS	MO	803	86	1555	10/7/46	KS	BS, U. of Kan. '68	JD, U. of Kan. '72	Legal	20	5	422
SAS CITY SOUTHERN INDUSTRIES	LANDON HILL ROWLAND	MO	741	64	1733	5/20/37	NC	BA, Dartmouth '59	JD, Harvard '62	Legal	14	7	501
FMAN & BROAD HOME	BRUCE E. KARATZ	CA	1094	28	707	10/10/45	MN	BS, Boston U. '67	JD, USC '70	Real estate	21	7	1288
OGG	ARNOLD G. LANGBO	MI	6191	683	11738	4/13/37	Canada	U. of British Columbia		Marketing	37	2	1255
Y SERVICES	TERENCE E. ADDERLEY	MI	1723	39	1132	9/1/33	MI	BBA, U. of Mich. '55	MBA, U. of Mich. '56	Finance	36	26	574
PER	DAVID B. MATHIS	IL	2201	-209	1233	4/13/38	GA	BA, Lake Forest '60		Insurance	33	2	1002
BALL INTERNATIONAL	RICHARD A. GILLELAND	MA	775	-50	781	7/5/44	NE	BA, U. of Minn. '67		Marketing	3	3	1482
-McGEE	FRANK A. McPHERSON	OK	3382	-26	2695	4/29/33	OK	BS, Okla. State '57		Operations	37	10	525
ORP	VICTOR J. RILEY JR.	NY	2239	246	3947	8/29/31	NY	BA, Notre Dame '53		Finance	30	20	1380
TONE INTERNATIONAL	RAYMOND ALBERT LeBLANC	TX	528	43	835	3/1/30	NY	BSCE, U. of Detroit '55	U. of Detroit	Marketing	34	8	657
ALL INTERNATIONAL	DOUGLAS A. HABIG	IN	722	31	641	9/13/46	KY	BS, St. Louis '68	MBA, Indiana '72	Finance	18	3	330
ERLY-CLARK	WAYNE R. SANDERS	TX	7091	345	7839	7/6/47	IL	BS, Ill. Tech. '69	MBA, Marquette '72	Planning	18	2	987
WORLD PRODUCTIONS	MICHAEL GORDON KING	CA	503	95	1379	3/8/48	NJ	BA, Fairleigh Dickinson '71		Mktg/Sales	16	9	2111
RT	JOSEPH E. ANTONINI	MI	37942	941	9374	7/13/41	WV	BS, W. Va. U. '64		Marketing	30	6	1455
HT-RIDDER	JAMES KNOX BATTEN	FL	2330	146	2994	1/11/36	VA	BS, Davidson '57	MPA, Princeton '62	Journalism	36	5	684
'S	WILLIAM S. KELLOGG	WI	1097	29	1495	7/8/43	WI			Marketing	26	14	897
GER	JOSEPH A. PICHLER	OH	22145	101	2240	10/3/39	MO	BBA, Notre Dame '61	MBA '63/PhD '66, U. of Chicago	Educ/Adm	13	3	567
NERGY	JOHN T. NEWTON	KY	576	77	1201	7/29/30	KY	BS, Western Ky. '52		Finance	36	6	527
ARGE	MICHEL ROSE	VA	1511	-37	1071	2/27/43	France	BS, Ecole Mines/Nancy '68	MBA, Intl. Mgmt. Inst. '77	Technical	24	1	149
RESEARCH	ROGER D. EMERICK	CA	171	10	708	9/25/39	WA	BS, U. of Wash. '64		Marketing	11	11	456
ASTER COLONY	JOHN B. GERLACH	OH	556	32	941	1/28/27	OH	Ohio U.		Finance	32	30	400
E	JOHN WILLIAM DISHER	NC	461	39	657	7/16/33	NC	BBA, Wake Forest '59		Finance	34	5	273
COMMUNICATIONS	BERNARD JOHN EBBERS	MS	NA	NA	2151 [8]	8/27/41	Canada	BS, Mississippi Coll. '67		Production	8	8	800
NTERPRISES	RICHARD DOUGLAS GOTTLIEB	IA	356	38	719	6/12/42	IA	BS, U. of Ariz. '64		Administration	29	2	1520
HT	JOHN F. BURTON	VA	427	28	690	6/3/51	RI	BA, Boston Coll. '73		Sales/Mktg	9	1	675
ETT & PLATT	HARRY M. CORNELL JR.	MO	1170	62	1617	10/5/28	Dutch E.I	BS, U. of Mo. '50		Marketing	43	34	1074
AR	LEONARD MILLER	FL	426	29	800	9/18/32	MA	AB, Harvard '55		Real estate	34	34	627
DIA NATIONAL	IAN M. CUMMING	NY	1593	131	1272	Age 52	Canada	BA, U. of Kan. '62	MBA, Harvard '70	Finance	15	15	2270
ENERGY	ROGER W. HALE	KY	835	83	1356	7/16/43	MD	BA, U. of Md. '65	MS, MIT '79	Mktg/Ops	4	4	578
TY	W. HAYNE HIPP	SC	403	40	662	3/11/40	SC	BA, Washington & Lee '62	MBA, Wharton '65	Mktg/Finance	24	15	400
TY MEDIA	PETER R. BARTON	CO	157	14	3097	4/6/51	DC	BA'71/MS'72, Columbia	MBA, Harvard 82	Administration	3	2	302
TY NATIONAL BANCORP	MALCOLM B. CHANCEY JR.	KY	381	46	687	12/2/31	KY	BS, U. of Louisville '54		Operations	26	1	433
(ELI)	RANDALL L. TOBIAS	IN	6167	828	13827	3/20/42	IN	BS, Indiana '64		Marketing	0	0	NA
ED (THE)	LESLIE H. WEXNER	OH	7086	455	8074	9/8/37	OH	BS, Ohio St. '59	Ohio State	Mktg/Finance	30	30	1860

EXECUTIVE TO WATCH

▶ His year started off in celebration—the longtime bachelor got married. But the partying is over. His Limited and Lerner Stores chains are losing customers. Summer was especially painful: He announced a $200 million charge in August to cover the cost of renovating or closing 250 stores. Ever the optimist, he's promoting the growth potential of his smaller chains that sell toiletries, lingerie, and men's apparel.

ROADCASTING	CRAIG O. McCAW	WA	573	-69	6037	8/11/49	WA	BA, Stanford '73		Management	4	4	50
LN NATIONAL	IAN McKENZIE ROLLAND	IN	8034	363	4308	6/3/33	IN	BA, DePauw '55	MA, U. of Mich. '56	Fin/Actuarial	37	16	841
R TECHNOLOGY	ROBERT H. SWANSON	CA	119	25	1107	8/9/38	MA	BS, Northeastern '63	U. of San Francisco	Technical	12	12	529
N INDUSTRIES	ALTON J. BRANN	CA	5693	174	2596	12/23/41	ME	BA, U. of Mass. '69		Technical	20	1	593
AIBORNE	JEROME A. CHAZEN	NY	2194	219	1909	3/21/27	NY	BA, U. of Wis. '48	MBA, Columbia '50	Marketing	16	4	1099
EED	DANIEL M. TELLEP	CA	10100	348	3822	11/20/31	PA	BS, Cal/Berkeley '54	MS, Cal/Berkeley '55	Technical	38	5	1350
TE	DAVID FREEMAN	CT	608	72	1367	4/14/44	England	Fellow, Inst. Chart. Accts. '65		Fin/Legal	19	0	457
S	PRESTON ROBERT TISCH	NY	13309	-22	6128	4/29/26	NY	BA, U. of Mich. '48		Operations	34	6	1377
STAR STEAKHOUSE & SALOON	JAMIE B. COULTER	KS	34	5	685	10/20/40	TX	BBA, Wichita St. '63		Administration	3	3	117
ISLAND LIGHTING	WILLIAM J. CATACOSINOS	NY	2622	302	3219	4/12/30	NY	BS, NYU '51	MBA '52/PhD '62, NYU	Administration	10	10	493
S DRUG STORES	ROBERT MERRILL LONG	CA	2475	53	681	5/19/38	CA	BA, Claremont Men's '60		Marketing	32	16	409

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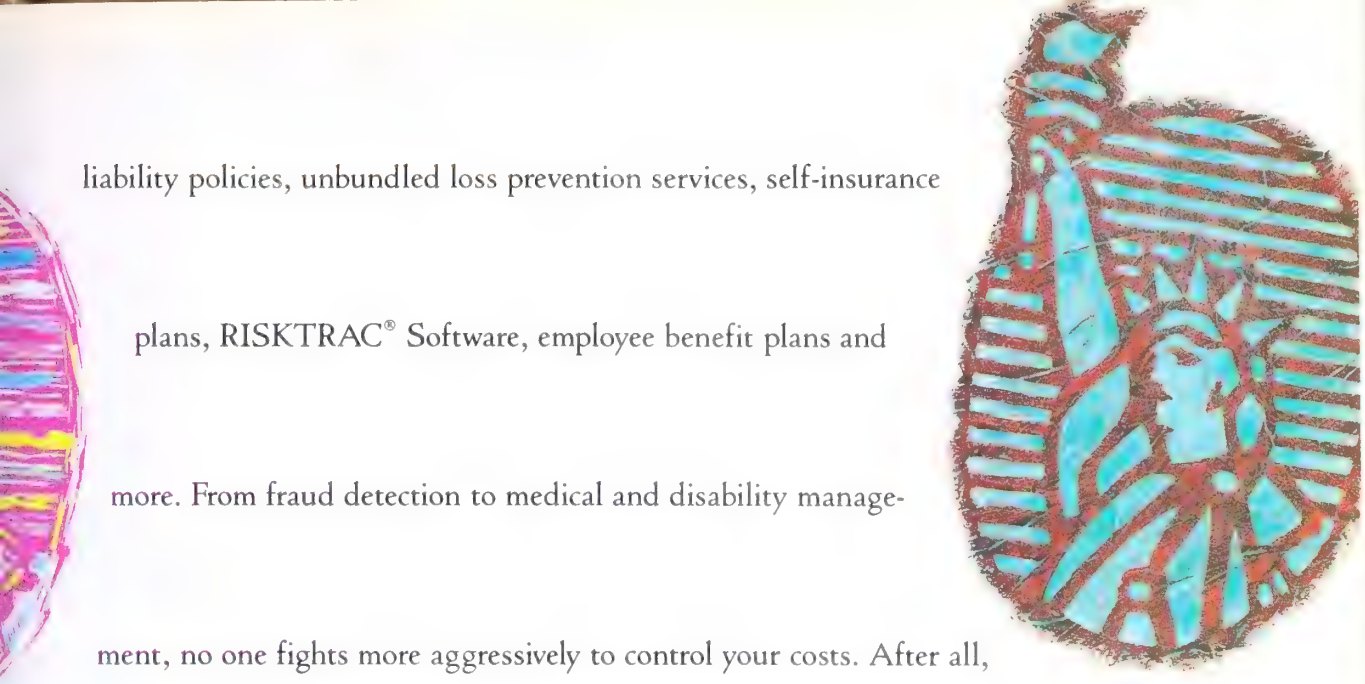

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THE CORPORATE ELITE

COMPANY	CEO	HDQ LOC	SALES $ MIL	PROFITS $ MIL	MKT VAL $ MIL	BORN	PLACE	COLLEGE EDUCATION	GRADUATE STUDY	CAREER PATH	TENURE COMPANY	TENURE CEO	T
LONGVIEW FIBRE	RICHARD PETER WOLLENBERG	WA	691	32	934	8/1/15	AK	BS, Cal/Berkeley '36	MBA, Harvard '38	Tech/Prodn	54	16	
LORAL	BERNARD L. SCHWARTZ	NY	3335	159	2586	12/13/25	NY	BBA, CCNY '48		Finance	21	21	4
LOTUS DEVELOPMENT	JIM P. MANZI	MA	900	80	1337	12/22/51	NY	BA, Colgate '73	MA, Tufts '79	Marketing	10	7	
LOUISIANA LAND & EXPLORATION	H. LEIGHTON STEWARD	LA	766	-1	1383	12/1/34	TX	BS, SMU '58	MS, SMU '60	Technical	11	5	
LOUISIANA-PACIFIC	HARRY A. MERLO	OR	2185	177	3894	3/5/25	CA	BS, Cal/Berkeley '49	Cal/Berkeley	Mktg/Prodn	26	21	
LOWE'S	LEONARD GRAY HERRING	NC	3846	85	2846	6/18/27	NC	BS, U. of N.C. '48		Finance	38	15	
LSI LOGIC	WILFRED J. CORRIGAN	CA	617	-110	835	3/21/38	England	BS, Imperial Coll. of Sci. '60		Technical	13	13	
LUBRIZOL	LESTER E. COLEMAN	OH	1552	125	2394	11/6/30	OH	BS, U. of Akron '52	MS '53/PhD '55, U. of Ill	Research	38	15	
LUBY'S CAFETERIAS	RALPH ERBEN	TX	346	33	695	2/8/31	TX	BS, Baylor '54		Management	34	4	
LUKENS	R. WILLIAM VAN SANT	PA	881	33	645	8/19/38	IA	BS, U. of Iowa '66	MS, U. of Iowa '67	Production	2	2	
LYONDELL PETROCHEMICAL	BOB G. GOWER	TX	4805	26	1460	8/14/37	IL	BS '58/MS '60, Southern Ill	PhD, U. of Minn. '63	Research/Tech	30	5	
MAGMA POWER	PAUL M. PANKRATZ	CA	100	36	878	3/30/32	KS	BS, U. of Kan. '55		Production	2	2	
MANOR CARE	STEWART W. BAINUM JR.	MD	916	67	1162	3/25/46	MD	BA, Pacific Union '68	MBA, UCLA '70	Finance/Mgmt	20	7	
MANPOWER	MITCHELL S. FROMSTEIN	WI	3187	-40	1221	Age 65	WI			Administration	17	5	
MANVILLE	WILLIAM THOMAS STEPHENS	CO	2224	47	916	9/2/42	AR	BS, U. of Ark '65	MS, U. of Ark. '66	Tech/Fin/Ops	27	7	
MAPCO	JAMES E. BARNES	OK	2640	101	1894	3/2/34	OK	BS, Okla State '57		Technical	10	10	
MARION MERRELL DOW	FRED W. LYONS JR.	MO	3320	685	5038	11/7/35	OH	BS, U. of Mich. '57	MBA, Harvard '59	Management	23	2	
MARK IV INDUSTRIES	SAL H. ALFIERO	NY	1222	46	905	10/11/37	RI	BS, RPI '63	MBA, Harvard '66	Technical	25	25	
MARRIOTT	JOHN WILLARD MARRIOTT JR.	DC	8722	85	2952	3/25/32	DC	BS, U. of Utah '54		Operations	37	21	
MARSH & McLENNAN	A. J. C. SMITH	NY	2937	304	6585	4/13/34	Scotland			Consulting	32	1	2
MARSHALL & ILSLEY	JAMES B. WIGDALE	WI	798	117	1514	8/9/36	WI	AB, Stanford '59	Marquette	Finance	31	1	
MARTIN MARIETTA	NORMAN R. AUGUSTINE	MD	5954	345	3994	7/27/35	CO	BS, Princeton '57	MS, Princeton '59	Technical	16	6	
MARVEL ENTERTAINMENT GROUP	WILLIAM C. BEVINS JR.	NY	224	33	2073	Age 46	TN	BS, East Tenn. St. '68		Finance	4	2	
MASCO	RICHARD A. MANOOGIAN	MI	3525	183	4715	7/30/36	NJ	BA, Yale '58		Management	35	25	
MASCOTECH	RICHARD A. MANOOGIAN	MI	1657	38	1048	7/30/36	NJ	BA, Yale '58		Management	35	9	
MATTEL	JOHN W. AMERMAN	CA	1848	144	2593	1/28/32	NJ	BA, Dartmouth '53	MBA, Amos Tuck '54	Marketing	13	7	

EXECUTIVE TO WATCH

▶ It's all smiles since his deal to acquire Fisher-Price Inc. for $1.1 billion. He wants to market its popular infant and preschool toys globally through the vast overseas distribution network. He celebrating another milestone: Barbie's sales are expected to top $1 billion this year, compar with $430 million in 1987. He is even winning at the track. He has stakes in more than a dozer racehorses, including top-ranked Star of Cozzene.

COMPANY	CEO	HDQ LOC	SALES $ MIL	PROFITS $ MIL	MKT VAL $ MIL	BORN	PLACE	COLLEGE EDUCATION	GRADUATE STUDY	CAREER PATH	TENURE COMPANY	TENURE CEO	T
MAXUS ENERGY	CHARLES L. BLACKBURN	TX	718	74	1172	1/9/28	OK	BS, U. of Okla. '52		Technical	7	7	
MAY DEPARTMENT STORES	DAVID C. FARRELL	MO	11150	603	10178	6/14/33	IL	BA, Antioch '56		Marketing	37	14	
MAYTAG	LEONARD A. HADLEY	IA	3041	-8	1808	7/4/34	IA	BSC, U. of Iowa '58	Drake	Finance	34	1	
MBIA	DAVID H. ELLIOTT	NY	328	189	3095	12/9/41	CT	BA, Yale '64	LLB, Boston U '67	Legal/Insurance	20	2	
MBNA	ALFRED LERNER	DE	1172	173	3391	5/8/33	NY	AB, Columbia '55		Finance	3	3	
McCAW CELLULAR COMMUNICATIONS [9]	CRAIG O. McCAW	WA	1743	-365	11779	8/11/49	WA	BA, Stanford '73		Management	24	8	
McCORMICK	BAILEY A. THOMAS	MD	1471	95	1740	1/19/31	MD	ABA, U of Baltimore 52		Production	32	2	
McDERMOTT INTERNATIONAL	ROBERT EDWARD HOWSON	LA	3173	67	1572	8/27/31	LA	BS, La. Tech '53	MS, Tulane '61	Technical	36	5	
McDONALD'S	MICHAEL R. QUINLAN	IL	7133	959	19006	12/9/44	IL	BS, Loyola '67	MBA, Loyola '70	Production	30	7	
McDONNELL DOUGLAS	JOHN FINNEY McDONNELL	MO	17373	698	3131	3/18/38	MD	BS, Princeton '60	MS, Princeton '62	Finance	31	6	
McGRAW-HILL	JOSEPH L. DIONNE	NY	2050	153	3412	6/29/33	AL	BA '55/MS '57, Hofstra	EdD, Columbia '65	Educ/Publish	27	10	
MCI COMMUNICATIONS	BERT C. ROBERTS JR.	DC	10562	609	14271	8/25/42	MO	BS, Johns Hopkins '65		Management	21	2	
McKESSON	ALAN SEELENFREUND	CA	11669	115	2074	10/22/36	NY	BA, Cornell '59	MS, Cornell '60; PhD, Stanford '67	Finance	18	4	
MCN	ALFRED R. GLANCY III	MI	1438	58	1019	3/14/38	MI	AB, Princeton '60	MBA, Harvard '62	Finance/Mktg	31	10	
MEAD	STEVEN C. MASON	OH	4703	38	2783	2/22/36	Canada	BS, MIT '57		Production	36	1	
MEDCO CONTAINMENT SERVICES [10]	RICHARD S. BRADDOCK	NJ	1813	103	5374	11/30/41	OK	BA, Dartmouth '63	MBA, Harvard '65	Finance	1	1	
MEDITRUST	ABRAHAM D. GOSMAN	MA	132	51	1017	12/8/28	MA	BS, U. of N.H. '49		Health care	8	8	
MEDTRONIC	WILLIAM W. GEORGE	MN	1328	212	3657	9/14/42	MI	BS, Ga. Tech '64	MBA, Harvard '66	Management	5	2	
MELLON BANK	FRANK V. CAHOUET	PA	2972	437	3658	5/25/32	MA	AB, Harvard '54	MBA, Wharton '59	Banking/Adm	6	6	
MELVILLE	STANLEY P. GOLDSTEIN	NY	10433	156	4885	6/5/34	RI	BS, Wharton '55		Marketing	24	7	
MERCANTILE BANCORPORATION	THOMAS H. JACOBSEN	MO	816	85	1144	10/15/39	IL	BS, Lake Forest '63	MBA, U. of Chicago '68	Banking	5	5	
MERCANTILE BANKSHARES	HENRY FUPLONG BALDWIN	MD	502	76	918	1/15/32	MD	AB, Princeton '54		Finance	37	17	
MERCANTILE STORES	DAVID L. NICHOLS	OH	2751	87	1179	9/1/41	OH	U. of Toledo		Marketing	30	2	
MERCK	P. ROY VAGELOS	NJ	9663	2447	37379	10/8/29	NJ	AB, U of Pa '50	MD, Columbia P&S '54	Research	18	8	
MERCURY FINANCE	JOHN N. BRINCAT	IL	142	46	2013	4/7/36	NY			Finance	10	10	
MERCURY GENERAL	GEORGE JOSEPH	CA	515	83	930	9/11/21	WV	SB, Harvard '49		Administration	32	32	
MERIDIAN BANCORP	SAMUEL A. McCULLOUGH	PA	1082	115	1501	11/10/38	PA	BS, U. of Pittsburgh '60		Finance	18	15	

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THE CORPORATE ELITE

COMPANY	CEO	HDQ LOC	SALES $ MIL	PROFITS $ MIL	MKT VAL $ MIL	BORN	PLACE	COLLEGE EDUCATION	GRADUATE STUDY	CAREER PATH	TENURE COMPANY	TENURE CEO	T
MERRILL LYNCH	DANIEL P. TULLY	NY	13428	952	10073	1/2/32	NY	BS, St. John's '53		Finance	38	1	5
MESA AIRLINES	LARRY L. RISLEY	NM	317	14	635	Age 49	TX	AAS, McLellan Comm. '76		Technical	14	11	
MEYER (FRED)	ROBERT G. MILLER	OR	2854	61	807	4/12/44	MS	Orange Coast		Mktg/Ops	2	2	
MFS COMMUNICATIONS	JAMES QUELL CROWE	NE	109	-13	2663	7/2/49	CA	BS, RPI '72	MBA, Pepperdine '83	Technical	6	6	
MGIC INVESTMENT	WILLIAM H. LACY	WI	352	102	1882	1/2/45	IL	BBA, U. of Wis. '68		Marketing	22	6	
MGM GRAND	ROBERT RAY MAXEY	NV	50	-20	2247	6/24/37	MO			Technical	3	3	

EXECUTIVE TO WATCH

▶ He plans to open Las Vegas' biggest hotel-casino in December. He has booked most of its 5,000 rooms through the end of 1994. And his biggest shareholder, Kirk Kerkorian, has boug an additional 30-acre parcel for expansion. Still, the competition is stiff. His MGM Grand, whic boasts a 33-acre theme park, will be opening two months after a couple of other mega-casino Luxor and Treasure Island, have their debuts.

MICHIGAN NATIONAL	ROBERT J. MYLOD	MI	1004	60	869	11/21/39	NY	BA, St. John's '61		Finance	9	9	
MICRON TECHNOLOGY	JOSEPH L. PARKINSON	ID	506	7	2039	8/6/45	TX	BA, Columbia '67	JD, Tulane '71; LLM, NYU '72	Legal	15	8	
MICROSOFT	WILLIAM H. GATES III	WA	2759	708	20197	10/28/55	WA	Harvard		Technical	18	18	
MIDLANTIC	GARRY J. SCHEURING	NJ	1353	7	1281	6/13/39	MN	BS, Notre Dame '61	MBA, U. of Chicago '64	Banking	2	2	
MIDWEST RESOURCES	RUSSELL E. CHRISTIANSEN	IA	1033	46	1038	5/19/35	SD	BS, S.D. State '59		Technical	34	1	
MILLER (HERMAN)	J. KERMIT CAMPBELL	MI	805	-3	695	Age 54	KS	BS, U. of Kan. '60	MS, MIT '77	Technical	1	1	
MILLIPORE	JOHN ALEXANDER GILMARTIN	MA	777	40	885	3/29/42	NJ	BS, Penn State '65	MBA, Harvard '67	Finance	14	7	
MINERALS TECHNOLOGIES	JEAN P. VALLES	NY	394	24	650	10/17/36	France	BA, E.S.C.P. '60	PhD, NYU '67	Finance	25	1	
MINNESOTA MINING & MFG.	LIVIO D. DESIMONE	MN	13883	1236	23759	7/16/36	Canada	BS, McGill '57		Technical	36	2	
MINNESOTA POWER & LIGHT	AREND J. SANDBULTE	MN	489	68	1066	12/9/33	IA	BSEE, Iowa St. '59	MBA, U. of Minn. '66	Finance	29	5	
MIRAGE RESORTS	STEPHEN A. WYNN	NV	833	37	1557	1/27/42	CT	BA, U. of Pa. '63		Administration	21	21	
MITCHELL ENERGY & DEVELOPMENT	GEORGE P. MITCHELL	TX	903	36	1454	5/21/19	TX	BS, Tex. A&M '40		Technical	47	34	
MOBIL	ALLEN E. MURRAY	VA	56877	1308	31158	3/5/29	NY	BS, NYU '56		Finance	41	8	
MOBILE TELECOMMUNICATION TECHS.	JOHN N. PALMER	MS	113	-3	1095	7/14/34	MS	BS, U. of Miss. '56	MBA, U. of Miss. '59	Fin/Telecomms	4	2	

THE CORPORATE ELITE

ANY	CEO	HDQ LOC	SALES $ MIL	PROFITS $ MIL	MKT VAL $ MIL	BORN	PLACE	COLLEGE EDUCATION	GRADUATE STUDY	CAREER PATH	TENURE COMPANY	TENURE CEO	PAY $ THOUS
LEX	FREDERICK A. KREHBIEL	IL	776	67	2208	6/2/41	IL	BA, Lake Forest '63	Georgetown, Leicester	Marketing	29	5	499
NSANTO	RICHARD J. MAHONEY	MO	7763	-126	7864	1/30/34	MA	BS, U. of Mass. '55		Mktg/Adm	31	10	1351
NTANA POWER	DANIEL T. BERUBE	MT	505	107	1416	10/1/33	MA	BS, U. of Wash. '64	MS, Mont. Mineral '71	Technical	29	2	232
RGAN (J.P.)	DENNIS WEATHERSTONE	NY	10231	1382	14476	11/29/30	England	Northwestern Poly.		Finance	47	4	2433
RGAN STANLEY GROUP	RICHARD B. FISHER	NY	7382	510	5949	7/21/36	PA	AB, Princeton '57	MBA, Harvard '62	Finance	31	3	3338
RRISON KNUDSEN	WILLIAM J. AGEE	ID	2270	13	802	1/5/38	ID	BS, U. of Idaho '60	MBA, Harvard '63	Finance/Mgmt	5	5	1382
RRISON RESTAURANTS	SAMUEL E. BEALL III	AL	1039	33	812	6/18/50	TN	U. of Tenn.		Administration	22	1	614
RTON INTERNATIONAL	CHARLES STANLEY LOCKE	IL	2044	145	4167	3/5/29	MS	BA, U. of Miss. '52	MS, U. of Miss. '55	Finance	18	13	1341
OROLA	GEORGE M.C. FISHER	IL	13303	576	26289	11/30/40	IL	BS, U. of Ill. '62	MS '64/PhD '66, Brown	Tech/Prodn	17	6	1462
TIMEDIA	J. WILLIAM GRIMES	SC	577	61	1160	3/7/41	WV	AB, W. Va. Wesleyan '63	St. John's	Sales/Mgmt	2	0	690
PHY OIL	JACK WRAY McNUTT	AR	1631	63	1966	9/7/34	AR	BS, Harding '56	MBA, Columbia '57	Finance	36	6	658
AN LABORATORIES	ROY McKNIGHT	PA	212	71	1797	3/13/21	PA	BS, Princeton '42		Sales	18	17	2000
AC RE	RONALD L. BORNHUETTER	CT	325	10	633	6/17/32	NJ	BA, Coll. of Wooster '53	MBA, Columbia '58	Finance	8	8	746
CO CHEMICAL	WORLEY H. CLARK	IL	1375	145	2432	6/18/32	VA	BS, N.C. State '56	Cleveland-Marshall	Sales	34	11	956
ONAL CITY	EDWARD B. BRANDON	OH	2784	347	4126	9/15/31	IA	BS, Northwestern '53	MBA, Wharton '56	Fin/Banking	37	6	994
ONAL FUEL GAS	BERNARD JOSEPH KENNEDY	NY	920	60	1303	8/16/31	NY	BA, Niagara '53	JD, U. of Mich. '58	Legal	35	5	520
ONAL HEALTH LABORATORIES	JAMES R. MAHER	CA	721	41	1403	11/30/49	MA	BS, Boston Coll. '71	MBA, Columbia '76	Finance	1	1	1697
ONAL MEDICAL ENTERPRISES	JEFFREY C. BARBAKOW	CA	3951	133	1286	4/3/44	CA	BS, San Jose St. '66	MBA, USC '68	Finance	0	0	NA
ONAL SEMICONDUCTOR	GILBERT F. AMELIO	CA	2014	130	2030	3/1/43	NY	BS, Ga Tech '65	MS '67/PhD '68, Ga. Tech.	Technical	3	2	1890
ONAL SERVICE INDUSTRIES	D. RAYMOND RIDDLE	GA	1634	74	1264	9/12/33	GA	BS, Ga. Tech. '55		Finance	1	1	NA
ONSBANK	HUGH L. McCOLL JR.	NC	9942	1145	13044	6/18/35	SC	BS, U. of N.C. '57		Fin/Banking	34	10	2551
ONWIDE HEALTH PROPERTIES	R. BRUCE ANDREWS	CA	50	30	656	6/12/40	PA	BS, Ariz St '62	UCLA	Finance	4	4	500
BANCORP	CHARLES THOMAS FISHER III	MI	3373	338	5318	11/22/29	MI	AB, Georgetown '51	MBA, Harvard '53	Finance	35	11	1613
DA POWER	CHARLES ALBERT LENZIE	NV	601	57	1046	9/5/37	IL	BS, U. of Ill. '60		Finance	19	4	389
ENGLAND ELECTRIC SYSTEM	JOHN W. ROWE	MA	2182	196	2786	5/18/45	WI	BS, U of Wis '67	JD, U. of Wis. '70	Legal	5	5	602

COMPANY	CEO	HDQ LOC	SALES $ MIL	PROFITS $ MIL	MKT VAL $ MIL	BORN	PLACE	COLLEGE EDUCATION	GRADUATE STUDY	CAREER PATH	TENURE COMPANY	TENURE CEO
NEW PLAN REALTY TRUST	WILLIAM NEWMAN	NY	65	49	1220	7/6/26	NY	BBA, CCNY '47		Finance	51	32
NEW YORK STATE ELECTRIC & GAS	JAMES ANDREW CARRIGG	NY	1692	184	2513	4/17/33	NY	AAS, Broome Comm. '58		Adm/Ops	35	5
NEW YORK TIMES	ARTHUR OCHS SULZBERGER	NY	1774	-11	1894	2/5/26	NY	BA, Columbia '51		Publishing	42	20
NEWELL	WILLIAM P. SOVEY	IL	1452	163	2862	8/26/33	GA	BS, Ga. Tech '55		Production	8	1
NEWMONT GOLD	RONALD C. CAMBRE	CO	546	87	4562	9/22/38	LA	BS, LSU '60		Tech/Mgmt	0	0
NEWMONT MINING	RONALD C. CAMBRE	CO	613	91	3418	9/22/38	LA	BS, LSU '60		Tech/Mgmt	0	0
NEXTEL COMMUNICATIONS	BRIAN D. McAULEY	NJ	53	-10	2203	3/4/41	NY	BBA, Adelphi '61		Finance	6	6
NIAGARA MOHAWK POWER	WILLIAM E. DAVIS	NY	3702	256	3329	3/23/42	NY	BS, U.S. Naval. Acad. '64	MSA, Geo. Washington '71	Analysis	4	0
NICOR	RICHARD G. CLINE	IL	1612	108	1599	2/17/35	IL	BS, U. of Ill. '57	DePaul	Marketing	8	8
NIKE	PHILIP H. KNIGHT	OR	3405	329	4048	2/24/38	OR	BA, U. of Ore. '59	MBA, Stanford '62	Mktg/Finance	24	24
NINE WEST GROUP	JEROME FISHER	CT	462	48	997	10/20/30	MA	BA, Wharton '53		Administration	16	16
NIPSCO INDUSTRIES	GARY L. NEALE	IN	1582	147	2241	3/3/40	SD	BA, U. of Wash. '62	MBA, U. of Wash. '65	Consulting	4	1
NOBLE AFFILIATES	ROBERT KELLEY	OK	260	41	1271	6/18/45	OK	BS, U. of Okla. '73		Finance	18	7
NORDSON	WILLIAM PAUL MADAR	OH	426	40	874	11/3/39	OH	BS, Purdue '61	MBA, Stanford '65	Prodn/Dist	8	8
NORDSTROM	BRUCE A. NORDSTROM	WA	3422	137	2501	10/1/33	WA	BA, U. of Wash. '56		Marketing	33	16
NORFOLK SOUTHERN	DAVID R. GOODE	VA	4662	558	9665	1/13/41	VA	AB, Duke '62	JD, Harvard '65	Finance	28	1
NORTHEAST UTILITIES	BERNARD M. FOX	CT	3217	303	3685	7/16/42	NY	BS, Manhattan '63	MS, RPI '64	Technical	29	0
NORTHERN STATES POWER	JAMES J. HOWARD	MN	2160	161	3096	7/1/35	PA	BBA, U. of Pittsburgh '57	MS, MIT '70	Operations	7	7
NORTHERN TRUST	DAVID W. FOX	IL	1231	150	2161	8/29/31	IL	BS, Notre Dame '53	MBA, U. of Chicago '58	Finance	38	4
NORTHROP	KENT KRESA	CA	5550	121	1784	3/24/38	NY	BS, MIT '59	MS, MIT '61	Technical	18	4

EXECUTIVE TO WATCH

▶ When he predicted in 1991 that revenues would double, to $6 billion, by 1996, sneaker sa were hot. But that's no longer the case, and Knight is eating crow. After six record-breaking years, both sales and profits will fall this fiscal year. This weekend tennis player needs to find n ways for Nike to grow. Outdoor shoes? Sports management? Producing sports events? Behin those Oakley sunglasses, he's contemplating them all.

THE CORPORATE ELITE

	CEO	HDQ LOC	SALES $ MIL	PROFITS $ MIL	MKT VAL $ MIL	BORN	PLACE	COLLEGE EDUCATION	GRADUATE STUDY	CAREER PATH	TENURE COMPANY	TENURE CEO	PAY $ THOUS
EST	RICHARD M. KOVACEVICH	MN	4816	440	7776	10/30/43	WA	BA, Stanford '65	MS '66/MBA '67, Stanford	Finance	8	1	1442
ARE	JOHN HALLETT FOSTER	NY	385	37	635	5/12/42	OH	BA, Williams '64	MS, Ohio St. '66; MBA, Amos Tuck '67	Finance	9	9	541
L	RAYMOND J. NOORDA	UT	933	249	6061	6/19/24	UT	BS, U. of Utah '49		Tech/Mktg	11	11	199
	F. KENNETH IVERSON	NC	1619	79	4001	9/18/25	IL	BS, Cornell '45	MS, Purdue '47	Technical	31	28	413
	JOHN G. TURNER	MN	1378	61	880	10/3/39	MA	BA, Amherst '61		Actuarial	26	2	691
	WILLIAM C. FERGUSON	NY	13155	1311	18431	10/26/30	MI	AB, Albion '52		Tech/Ops	41	4	1486
DENTAL PETROLEUM	RAY R. IRANI	CA	8494	126	6439	1/15/35	Lebanon	BS, American(Lebanon) '53	PhD, USC '57	R&D	10	3	3838
	AHMED D. KAFADAR	CO	88	15	640	7/13/15	Turkey	EM, Colo. Mines '42	MEM, Colo. Mines '43	Technical	35	35	331
DEPOT	DAVID I. FUENTE	FL	1733	38	2716	9/10/45	IL	BS, Purdue '67	MS, Purdue '69	Marketing	6	6	810
	R. RICHARD ABLON	NY	1769	61	1017	10/7/49	NY	BA, Boston U. '71		Ops/Mktg	22	3	1589
ASUALTY	JOSEPH LARUE MARCUM [3]	OH	1812	97	1171	7/2/23	OH	AB, Antioch '47	MBA, Miami U. (Ohio) '65	Marketing	46	5	512
DISON	WILLARD R. HOLLAND	OH	2332	283	3891	4/22/36	TN	BS, Rose-Hulman Tech '65	MS, Rose-Hulman Tech '66	Operations	2	1	354
OMA GAS & ELECTRIC	JAMES G. HARLOW JR.	OK	1315	100	1512	5/29/34	OK	BS, U. of Okla. '57	U. of Okla.	Finance	33	18	500
NT FINANCIAL	JOHN C. CANEPA	MI	815	111	1392	8/26/30	MA	AB, Harvard '53	MBA, NYU '60	Finance	21	11	928
TIONAL BANCORP	DAN W. MITCHELL	IN	265	36	677	1/23/28	AZ	BS, Indiana '50		Finance	11	11	380
PUBLIC INTERNATIONAL	ALDO CHARLES ZUCARO	IL	1617	175	1340	4/2/39	France	BS, Queens '62		Finance	17	3	778
	JOHN W. JOHNSTONE JR.	CT	2376	55	790	11/19/32	NY	BA, Hartwick '54		Marketing	14	6	810
	FRANK N. LIGUORI	NY	987	21	732	7/2/46	NY	BBA, St. Francis '69		Finance	22	3	857
DM GROUP	BRUCE CRAWFORD	NY	1385	65	1322	3/16/29	MA	BS, Wharton '52		Advertising	4	4	1300
. SYSTEMS	LAWRENCE JOSEPH ELLISON	CA	1503	142	7111	8/17/44	NY			Technical	16	16	2150
NERGY	ROBERT P. HAUPTFUHRER	TX	1275	73	2290	12/31/31	PA	BA, Princeton '53	MBA, Harvard '57	Finance/Ops	36	5	928
K STEAKHOUSE	CHRISTOPHER T. SULLIVAN	FL	124	13	819	2/15/48	FL	U. of Ky.		Management	6	2	396
-CORNING FIBERGLAS	GLEN H. HINER	OH	2878	72	1841	7/22/34	WV	BS, W. Va. U. '57	PhD, W. Va. U. '90	Marketing	2	2	1155
-ILLINOIS	JOSEPH H. LEMIEUX	OH	3672	97	1190	3/2/31	RI	BS, Bryant '57		Production	36	3	984

COMPANY	CEO	HDQ LOC	SALES $ MIL	PROFITS $ MIL	MKT VAL $ MIL	BORN	PLACE	COLLEGE EDUCATION	GRADUATE STUDY	CAREER PATH	TENURE COMPANY	TENURE C
PACCAR	CHARLES McGEE PIGOTT	WA	2735	65	2112	4/21/29	WA	BS, Stanford '51		Tech/Prodn/Mgmt	37	2
PACIFIC ENTERPRISES	WILLIS B. WOOD JR.	CA	2900	143	1971	9/15/34	MO	BS, U. of Tulsa '57		Technical	33	
PACIFIC GAS & ELECTRIC	RICHARD A. CLARKE	CA	10296	1171	15524	5/18/30	CA	AB, Cal/Berkeley '52	JD, U. of Calif. '55	Legal	38	
PACIFIC TELECOM	CHARLES E. ROBINSON	WA	705	67	960	12/3/33	AR			Operations	33	
PACIFIC TELESIS GROUP	SAM L. GINN	CA	9935	1142	22068	4/3/37	AL	BS, Auburn '59		Technical	33	
PACIFICARE HEALTH SYSTEMS	ALAN R. HOOPS	CA	1704	44	1006	9/19/47	CA	BS, UCLA '69	MPH, U. of Wash. '73	Administration	16	
PACIFICORP	ALFRED M. GLEASON	OR	3242	150	5364	4/4/30	KS	U. of Ore.		Finance/Adm	44	
PAGING NETWORK	GEORGE M. PERRIN [3]	TX	258	-7	1306	11/15/45	MI	BA, U. of Mich. '67	MBA, U. of Mass. '71	Administration	12	
PAINEWEBBER GROUP	DONALD B. MARRON	NY	3364	213	1560	7/21/34	NY	Baruch		Finance	28	
PALL	MAURICE G. HARDY	NY	685	90	2045	5/23/30	England	BME, Merchant Ventures '49		Technical	33	
PANHANDLE EASTERN	DENNIS R. HENDRIX	TX	2346	187	2829	1/8/40	TN	BS, U. of Tenn. '62	MBA, Ga. State '67	Finance	3	
PARAMETRIC TECHNOLOGY	STEVEN C. WALSKE	MA	87	21	2038	3/26/52	NM	BA, Princeton '74	MBA, Harvard '78	Management	7	
PARAMOUNT COMMUNICATIONS	MARTIN S. DAVIS	NY	4265	270	6604	2/5/27	NY	CCNY, NYU		Mktg/Adm/Ops/Fin	36	
PARKER HANNIFIN	DUANE E. COLLINS	OH	2376	63	1655	3/20/36	WI	BS, U. of Wis. '61		Production	32	
PARKER & PARSLEY PETROLEUM	SCOTT D. SHEFFIELD	TX	197	27	862	6/4/52	TX	BS, U. of Tex. '75		Technical	14	
PAYCHEX	B. THOMAS GOLISANO	NY	161	14	908	11/14/41	NY	AAS, Alfred St. Tech '62		Sales	22	2
PENN CENTRAL	CARL HENRY LINDNER	OH	1797	62	1624	4/22/19	OH			Entrepreneur	11	
PENNEY (J.C.)	WILLIAM R. HOWELL	TX	19085	777	10506	1/3/36	OK	BBA, U. of Okla. '58		Marketing	35	1
PENNSYLVANIA POWER & LIGHT	WILLIAM F. HECHT	PA	2744	347	4614	3/18/43	NY	BS, Lehigh '64	MS, Lehigh '70	Technical	29	
PENNZOIL	JAMES LEONARD PATE	TX	2223	17	2856	9/6/35	IL	AB, Monmouth '63	MBA, Indiana '64	Finance	18	
PENTAIR	WINSLOW H. BUSTON	MN	1239	43	660	4/19/39	FL	BS, U. of Wash. '61		Production	7	
PEOPLES ENERGY	RICHARD EDWARD TERRY	IL	1097	72	1170	7/7/37	WI	BA, St. Norbert '59	LLB, U. of Wis. '64	Legal	21	
PEP BOYS—MANNY, MOE & JACK	MITCHELL G. LEIBOVITZ	PA	1156	55	1443	5/11/45	PA	AB, Temple '66	MEd'71/MBA'73, Temple	Finance	15	
PEPSICO	WAYNE CALLOWAY	NY	21970	1302	31031	9/12/35	NC	BBA, Wake Forest '59		Finance	27	
PERKIN-ELMER	GAYNOR N. KELLEY	CT	911	59	1449	5/12/31	CT	Delehanty Inst.		Production	43	
PERRIGO	MICHAEL J. JANDERNOA	MI	410	29	2105	5/12/50	MI	BBA, U. of Mich. '72		Finance	14	
PET	MILES L. MARSH	MO	1520	114	1648	7/28/47	S. Africa	BS, U. of Cape Town '70	MBA, Cape Town '73; PhD, Northwestern '76	Management	4	
PETRIE STORES	MILTON PETRIE	NJ	1438	15	1175	8/5/2	UT			Entrepreneur	61	6
PFIZER	WILLIAM C. STEERE JR.	NY	7230	1094	20007	6/17/36	MI	BA, Stanford '59		Marketing	34	

EXECUTIVE TO WATCH

▶ He should be having the time of his life, as profits climb. But looming health-care reform i giving him major headaches. As head of the industry's trade group, he's preaching against government interference in the industry, arguing that drugs save money. Why? Hospitaliza more expensive than outpatient medication. So far, the hard-charging former drug salesmo whose hobbies include helicopter-skiing and deep-sea diving, is finding this one a tough sel

PHELPS DODGE	DOUGLAS C. YEARLEY	AZ	2579	302	3318	1/7/36	IL	BS, Cornell '58		Tech/Prodn	33	
PHH	ROBERT D. KUNISCH	MD	2021	56	737	7/7/41	CT	BS, NYU '63		Marketing	22	
PHILADELPHIA ELECTRIC	JOSEPH F. PAQUETTE JR.	PA	3962	479	7218	8/24/34	MA	BS, Yale '56	Temple	Finance	37	
PHILIP MORRIS	MICHAEL A. MILES	NY	50095	4939	42386	6/22/39	IL	BS, Northwestern '61		Marketing	4	
PHILLIPS PETROLEUM	C. J. SILAS	OK	11933	270	8552	4/15/32	FL	BS, Ga. Tech '54		Tech/Mktg/Prodn	40	
PHILLIPS-VAN HEUSEN	BRUCE J. KLATSKY	NY	1043	38	804	7/14/48	NY	BS, Case Western '70	Georgetown	Marketing	22	
PIEDMONT NATURAL GAS	JOHN HOWARD MAXHEIM	NC	460	35	659	10/4/34	IA	BS, Iowa St. '58		Technical	15	1
PINNACLE WEST CAPITAL	RICHARD SNELL	AZ	1690	183	2149	11/26/30	AZ	BA, Stanford '52	JD, Stanford '54	Finance/Legal	20	
PIONEER HI-BRED INTERNATIONAL	THOMAS N. URBAN	IA	1262	152	2885	5/26/34	IA	AB, Harvard '56	MBA, Harvard '60	Marketing	33	1
PITNEY BOWES	GEORGE B. HARVEY	CT	3434	312	6330	4/7/31	CT	BS, Wharton '54		Finance/Mgmt	37	
PITTSTON SERVICES GROUP	JOSEPH C. FARRELL	CT	1417	27	836	9/27/35	MA	BS, Northeastern '58	MBA, Harvard '63	Finance/Prodn	10	
PNC BANK	THOMAS HENRY O'BRIEN	PA	4106	529	6973	1/16/37	PA	BS, Notre Dame '58	MBA, Harvard '62	Finance	31	
POLAROID	ISRAEL MacALLISTER BOOTH	MA	2152	99	1779	12/7/31	GA	BS, Cornell '55	MBA, Cornell '58	Tech/Ops	35	
PORTLAND GENERAL	KEN L. HARRISON	OR	884	102	1060	10/14/42	CA	BS, Ore. State '64	MA, Ore. State '66	Finance	19	
POTLATCH	RICHARD BLAINE MADDEN	CA	1327	79	1251	4/27/29	NJ	BS, Princeton '51	JD, U. of Mich. '56; MBA, NYU '59	Finance/Prodn	22	2
POTOMAC ELECTRIC POWER	EDWARD FRANKLIN MITCHELL	DC	1602	201	3244	12/23/31	VA	BEE, U. of Va. '56	MEA, Geo. Washington '60	Technical	37	
PPG INDUSTRIES	JERRY E. DEMPSEY	PA	5814	319	7269	10/1/32	SC	BS, Clemson '54	MBA, Ga. State '67	Marketing	0	
PRAXAIR	H. WILLIAM LICHTENBERGER	CT	2604	84	2068	11/5/35	Yugoslavia	BA '57/BS '59, U. of Iowa	MBA, SUNY/Buffalo '62	Technical	34	
PREMARK INTERNATIONAL	WARREN L. BATTS	IL	2946	5	2001	9/4/32	VA	BS, Ga. Tech '61	MBA, Harvard '63	Administration	13	
PREMIER INDUSTRIAL	MORTON L. MANDEL	OH	641	79	2352	9/19/21	OH	Case Western		Administration	53	2
PRESIDENT RIVERBOAT CASINOS	JOHN EDWARD CONNELLY	MO	103	13	708	8/15/25	PA			Finance	35	3
PRICE	ROBERT EDWARD PRICE	CA	7501	129	1685	8/10/42	CA	BA, Pomona '64		Marketing	18	1
PRICE (T. ROWE) ASSOCIATES	GEORGE J. COLLINS	MD	245	36	868	7/31/40	CT	BA, VMI '62	MBA, American '70	Marketing	22	
PRIMADONNA RESORTS	GARY EDWARD PRIMM	NV	129	25	920	5/14/40	CA	BA, Woodbury '65		Administration	15	1
PRIMERICA	SANFORD I. WEILL	NY	5099	756	10280	3/16/33	NY	BA, Cornell '55		Finance	7	

THE CORPORATE ELITE

	CEO	HDQ LOC	SALES $ MIL	PROFITS $ MIL	MKT VAL $ MIL	BORN	PLACE	COLLEGE EDUCATION	GRADUATE STUDY	CAREER PATH	TENURE COMPANY	TENURE CEO	PAY $ THOUS
ER & GAMBLE	EDWIN LEWIS ARTZT	OH	30433	269	32554	4/15/30	NY	BS, U. of Ore. '51		Marketing	40	4	1763
RESSIVE	PETER BENJAMIN LEWIS	OH	1722	140	2583	11/11/33	OH	BA, Princeton '55		Marketing	38	29	2132
US	MICHAEL D. ROSE	TN	1113	51	4689	3/2/42	OH	BBA, Cincinnati '63	JD, Harvard '66	Legal/Ops	19	12	878
RTY TRUST OF AMERICA	C. RON BLANKENSHIP	TX	33	9	659	11/26/49	TX	BBA, U. of Tex. '72		Finance	2	2	NA
DENT LIFE & ACCIDENT [11]	WINSTON W. WALKER	TN	2867	113	1395	10/19/43	MI	BA, Tulane '65	PhD, U. of Ga. '69	Finance	19	5	NA
SOURCES	JAMES E. ROGERS JR.	IN	1081	103	1418	9/20/47	AL	BBA, U. of Ky. '70	JD, U. of Ky. '74	Legal	5	5	624
C SERVICE CO. OF COLORADO	DELWIN D. HOCK	CO	1862	137	1917	1/19/35	CO	BS, U. of Colo. '56		Finance	31	5	460
C SERVICE ENTERPRISE GROUP	E. JAMES FERLAND	NJ	5357	536	8703	3/19/42	MA	BS, U. of Me. '64	MBA, U. of New Haven '76	Tech/Finance	7	7	841
SOUND POWER & LIGHT	RICHARD R. SONSTELIE	WA	1025	136	1743	3/31/45	Canada	BS, U.S. Mil. Acad. '66	MS, MIT '68	Tech/Finance	19	1	403
	ROBERT K. BURGESS	MI	1370	72	1021	5/13/44	Canada	BS, Mich. State '67		Production	11	1	875
	RONALD R. TAYLOR	CA	46	12	873	10/24/47	Canada	BA, U. of Saskatchewan '69	MA, Cal/Irvine '71	Production	6	6	412
AKER OATS	WILLIAM DEAN SMITHBURG	IL	5576	248	4846	7/9/38	IL	BS, DePaul '60	MBA, Northwestern '61	Mktg/Finance	27	12	1239
COMM	IRWIN M. JACOBS	CA	106	-4	1948	10/18/33	MA	BEE, Cornell '56	MS '57/ScD '59, MIT	Tech/Educ	8	8	241
AR	R. D. CASH	UT	605	71	1548	6/27/42	TX	BS, Tex. Tech '66		Technical	17	12	504
ETWORK	BARRY DILLER	PA	1071	57	2325	2/2/42	CA	Standford, UCLA		Administration	1	1	4890
STON PURINA GROUP	WILLIAM P. STIRITZ	MO	5748	292	4141	7/1/34	AR	BS, Northwestern '58	MA, U. of Mo. '68	Marketing	29	12	1340
EM	ROBERT J. SALDICH	CA	1296	-17	1683	6/7/33	NY	BA/BS, Rice '56	MBA, Harvard '61	Technical	30	3	449
EON	DENNIS J. PICARD	MA	9058	635	8541	8/25/32	RI	BBA, Northeastern '62		Technical	38	3	1280
R'S DIGEST ASSOCIATION	GEORGE V. GRUNE	NY	2614	234	4615	7/18/29	NY	BS, Duke '52		Sales/Mktg	33	9	1705
K INTERNATIONAL	PAUL FIREMAN	MA	3023	115	2033	2/14/44	MA	Boston U.		Mktg/Sales/Fin	14	7	1604
ICE ELECTRIC	JOHN C. MORLEY	OH	1553	48	851	8/22/31	MI	BA, Yale '54	MBA, U. of Mich. '58	Finance	13	13	925
ICE GROUP HOLDINGS	SAUL P. STEINBERG	NY	2757	-43	646	8/13/39	NY	BS, Wharton '59		Entrepreneur	32	32	5912
LIC NEW YORK	WALTER HERMAN WEINER	NY	2341	259	2802	8/29/30	NY	BA, U. of Mich. '52	JD, U. of Mich. '53	Legal	14	14	953
LDS METALS	RICHARD G. HOLDER	VA	5593	-109	3082	9/13/31	TN	BA, Vanderbilt '53		Marketing	35	1	542
LDS & REYNOLDS	DAVID R. HOLMES	OH	645	38	1108	8/10/40	UT	BS, Stanford '63	MBA, Northwestern '65	Management	9	4	840
-POULENC RORER	ROBERT E. CAWTHORN	PA	4096	423	6342	9/28/35	England	BA, Cambridge '59		Tech/Adm	11	8	1193
D	ALEX GRASS	PA	4085	132	1486	8/3/27	PA	U. of Fla.	LLB, U. of Fla. '49	Legal/Mgmt	40	31	1125
WOOD INTERNATIONAL	THOMAS H. JOHNSON	GA	1138	44	884	9/27/49	GA	BS, Ga. Tech '71	MBA, Harvard '76	Marketing	4	2	553
BISCO HOLDINGS	CHARLES M. HARPER	NY	15734	776	5825	9/26/27	MI	BS, Purdue '49	MBA, U. of Chicago '50	Production	0	0	NA
WAY SERVICES	JOSEPH MARK CLAPP	OH	3578	147	2314	7/29/36	NC	BS, U. of N.C. '58		Sales	26	6	690
STER GAS & ELECTRIC	ROGER W. KOBER	NY	896	70	1022	5/2/33	NY	BME, Clarkson '55	ME, RIT '83	Technical	28	2	383
STER TELEPHONE	RONALD L. BITTNER	NY	804	71	1433	12/10/41	PA	BA, Muhlenberg '63	MBA, U. of Rochester '78	Marketing	30	2	453
VELL INTERNATIONAL	DONALD R. BEALL	CA	10910	483	7989	11/29/38	CA	BS, San Jose St. '60	MBA, U. of Pittsburgh '61	Finance/Tech	25	6	1403
& HAAS	J. LAWRENCE WILSON	PA	3072	174	3694	3/2/36	MS	BS, Vanderbilt '58	MBA, Harvard '63	Finance/Adm	28	5	927
IS	R. RANDALL ROLLINS	GA	528	38	904	11/5/31	GA	U. of Del.		Administration	34	2	358
	MATHIAS J. DeVITO	MD	597	-16	851	8/23/30	NJ	BA, U. of Md. '54	LLB, U. of Md. '56	Legal	25	14	988
	C. ROBERT PALMER	TX	250	-74	827	12/15/34	TX	BSME, SMU '57	MSEA, SMU '66	Technical	40	22	700
	THOMAS CHRISTOPHER SULLIVAN	OH	626	39	804	7/8/37	OH	BS, Miami U. (Ohio) '59		Marketing	32	22	875
RMAID	WOLFGANG R. SCHMITT	OH	1805	167	5212	3/12/44	Germany	BS, Otterbein '66		Mktg/R&D	27	1	826
L	JOHN C. ADAMS	AL	899	82	1223	2/18/39	SC	BTE, Ga. Tech '60		Marketing	17	1	406
NTERNATIONAL	RODNEY C. GILBERT	AL	440	3	1701	9/14/39	AL	BS, U. of Ala. '67		Administration	1	1	NA
SYSTEM	M. ANTHONY BURNS	FL	5192	118	2268	11/1/42	NV	BS, Brigham Young '64	MBA, Cal/Berkeley '65	Finance	19	11	1507
CO	ROGER H. EIGSTI	WA	3295	311	4071	4/17/42	WA	BS, Linfield '64		Finance	21	2	495
-KLEEN	DONALD W. BRINCKMAN	IL	795	45	887	3/17/31	IL	BS, Northwestern '54	MBA, Northwestern '59	Marketing	34	25	594
AY	STEVEN A. BURD	CA	15152	98	1839	11/24/49	ND	BS, Carroll '71	MA, U. of Wis. '73	Consulting	1	0	NA

EXECUTIVE TO WATCH

▶ Penny-pinching consumers are looking for value these days, and nobody knows it better than this brandmeister. To reduce costs and cut prices, he's slashing promotion expenses and squeezing out weak brands. That's beginning to boost U.S. results—but not enough. Now, he is slicing 13,000 jobs and closing 30 plants worldwide. Long a backer of international expansion, he's taking brands from Max Factor to Pantene global.

EXECUTIVE TO WATCH

▶ When Kohlberg Kravis Roberts saw its huge investment in the grocer going stale last year, they turned to this longtime KKR consultant. It looks as if he's ringing up a quick turnaround. He cut headquarters staff by 25%, won union concessions, trimmed capital spending, and cut prices in an effort to boost volume and gain market share. So far, so good. Results are up, and the stock has soared more than 50% since January.

COMPANY	CEO	HDQ LOC	SALES $ MIL	PROFITS $ MIL	MKT VAL $ MIL	BORN	PLACE	COLLEGE EDUCATION	GRADUATE STUDY	CAREER PATH	TENURE COMPANY	TENURE CEO
SALLIE MAE	LAWRENCE A. HOUGH	DC	2787	394	3954	4/4/44	WI	BS, Stanford '66	MS, MIT '72	Finance	20	3
SALOMON	[illegible]	NY	15372	550	5461	8/27/45	TX	BA, U. of Tex. '66	MA '68/JD '71, Harvard	Legal	2	1
SAN DIEGO GAS & ELECTRIC	[illegible]	CA	1871	211	3133	3/24/33	NY	BS, Purdue '55	MS, Purdue '63	Tech/Finance	15	12
SANTA FE ENERGY RESOURCES	[illegible]	TX	428	-1	920	3/7/37	IL	BS, Colo. Mines '59	MBA, Golden Gate '74	Technical	11	3
SANTA FE PACIFIC	[illegible]	IL	2496	64	3418	5/2/42	CA	BA, Stanford '64	MBA, Harvard '66	Finance	27	6
SARA LEE	JOHN H. BRYAN	IL	13243	761	12624	10/5/36	MS	BA, Rhodes '58		Finance/Ops	25	19
SCANA	LAWRENCE M. GRESSETTE JR.	SC	1138	124	2286	2/23/32	SC	BS, Clemson '54	LLB, U. of S.C. '59	Legal	11	4
SCECORP	JOHN E. BRYSON	CA	7984	781	11138	7/24/43	NY	BA, Stanford '65	JD, Yale '69	Legal	10	3
SCHERER (R.P.)	ALEKSANDAR ERDELJAN	MI	398	29	645	4/23/50	Yugoslavia	BSC, U. of Belgrade '74	MBA, IMD, Lausanne '83	Production	15	4
SCHERING-PLOUGH	ROBERT P. LUCIANO	NJ	4056	720	11695	10/9/33	NY	BBA, CCNY '54	JD, U. of Mich. '58	Legal/Adm	15	12
SCHLUMBERGER	D. EUAN BAIRD	NY	6332	662	16017	9/16/37	Scotland	BA, Cambridge '60		Technical	33	7
SCHOLASTIC	RICHARD ROBINSON	NY	489	13	673	5/15/37	PA	BA, Harvard '59	St. Catherine's	Publishing	31	19
SCHULMAN (A.)	TERRY LEE HAINES	OH	732	44	912	8/5/46	OH	U. of Akron		Marketing	28	3
SCHWAB (CHARLES)	CHARLES R. SCHWAB	CA	909	81	1889	7/29/37	CA	BS, Stanford '59	MBA, Stanford '61	Finance	19	19
SCIENTIFIC-ATLANTA	JAMES F. McDONALD	GA	581	16	1371	2/17/40	KY	MS, U. of Ky. '64		Technical	0	0
SCIMED LIFE SYSTEMS	DALE ALLEN SPENCER	MN	223	51	857	5/2/45	ME	BS, U. of Me. '67	MBA, Southern Ill. '73	Sales/Mktg	13	7
SCOTT PAPER	PHILIP E. LIPPINCOTT	PA	4886	167	2553	11/28/35	NJ	BA, Dartmouth '57	MBA, Mich. State '64	Mktg/Adm	34	12
SCRIPPS (E.W.)	LAWRENCE A. LESER	OH	1263	106	1772	5/15/35	OH	BSBA, Xavier '57		Finance	26	8
SCRIPPS HOWARD BROADCASTING	LAWRENCE A. LESER	OH	390	37	712	5/15/35	OH	BSBA, Xavier '57		Finance	26	1
SEAGATE TECHNOLOGY	ALAN F. SHUGART	CA	2875	63	1358	9/27/30	CA	BS, U. of Redlands '51		Tech/Prodn	14	14
SEAGULL ENERGY	BARRY J. GALT	TX	239	4	1123	12/14/33	OK	BA, U. of Okla. '55	LLB, U. of Okla. '60	Legal	10	10
SEARS, ROEBUCK	EDWARD A. BRENNAN	IL	52345	-2567	18372	1/16/34	IL	BS, Marquette '55		Mktg/Mgmt	37	8
SENSORMATIC ELECTRONICS	RONALD G. ASSAF	FL	310	32	1697	6/2/35	OH	U. of Akron		Marketing	27	19
SERVICE CORP. INTERNATIONAL	ROBERT LYNN WALTRIP	TX	772	87	2055	1/10/31	TX	BA, U. of Houston '54		Entrepreneur	31	31
SERVICE MERCHANDISE	[illegible]	TN	3713	84	1067	4/4/33	TN	U. of Miami, Memphis St.		Marketing	33	12
SERVICEMASTER [3]	C. WILLIAM POLLARD	IL	2489	130	1842	6/1/38	IL	BA, Wheaton '60	JD, Northwestern '63	Legal	16	10
SHAW INDUSTRIES	ROBERT E. SHAW	GA	1751	58	3089	8/18/31	GA	U. of the South		Adm/Mktg	33	26
SHAWMUT NATIONAL	JOEL BARNES ALVORD	CT	2024	57	2142	11/29/38	CT	AB, Dartmouth '60	MBA, Amos Tuck '61	Finance	31	7
SHERWIN-WILLIAMS	JOHN GERALD BREEN	OH	2748	145	2951	7/21/34	OH	BS, John Carroll '56	MBA, Case Western '61	Production	15	15
SHONEY'S	TAYLOR H. HENRY	TN	1059	-27	830	12/24/35	AL	BS, U of Ala '57		Finance	19	1
SIGMA-ALDRICH	C. THOMAS CORI	MO	654	95	2453	8/13/36	MO	BS, U. of Wis. '59	PhD, Wash. U (Mo.) '69	Technical	22	14
SIGNET BANKING	ROBERT M. FREEMAN	VA	1041	109	1857	5/10/41	VA	BS, U. of Va. '63		Finance	22	4
SILICON GRAPHICS	EDWARD R. McCRACKEN	CA	867	-118	2576	12/24/43	IA	BSEE, Iowa St. '66	MBA, Stanford '68	Marketing	9	9
SMITH'S FOOD & DRUG CENTERS	JEFFREY P. SMITH	UT	2650	54	732	2/20/50	UT	Utah St.		Retailing	31	5
SMUCKER (J.M.)	PAUL H. SMUCKER	OH	491	37	668	4/21/17	OH	BS, Miami U. (Ohio) '39		Finance	54	23
SNAPPLE BEVERAGE	LEONARD MARSH	NY	232	5	3141	1/5/33	NY			Production	21	1
SNAP-ON TOOLS	ROBERT A. CORNOG	WI	1047	66	1788	5/7/40	PA	BS, Ill. Tech. '61	MBA, U. of Chicago '66	Prodn/Mktg	2	2
SOCIETY	ROBERT W. GILLESPIE	OH	2405	301	3670	3/26/44	OH	AB, Ohio Wesleyan '66	MBA, Case Western '68	Banking	26	6
SOLECTRON	KOICHI NISHIMURA	CA	407	14	809	8/31/38	CA	BS '63/MS '68 San Jose St.	PhD, Stanford '84	Technical	5	2
SONAT	RONALD L. KUEHN JR.	AL	1484	101	3020	4/6/35	NY	BS, Fordham '57	LLB, Fordham '64	Legal	23	9
SONOCO PRODUCTS	CHARLES W. COKER	SC	1838	81	1833	5/10/33	SC	BA, Princeton '55	MBA, Harvard '57	Production	36	23
SOTHEBY'S HOLDINGS	MICHAEL L. AINSLIE	NY	225	4	696	5/12/43	TN	BA, Vanderbilt '65	MBA, Harvard '68	Administration	9	9
SOUTHERN	EDWARD L. ADDISON	GA	8073	1057	14001	2/13/30	SC	BS, U. of S.C. '50		Technical	40	10
SOUTHERN NEW ENGLAND TEL.	DANIEL J. MIGLIO	CT	1614	159	2315	6/23/40	PA	BS, Wharton '62		Finance	31	1
SOUTHLAND	CLARK J. MATTHEWS II	TX	6439	-131	2306	10/1/36	KS	BA, SMU '59	JD, SMU '61	Legal	28	3
SOUTHTRUST	WALLACE D. MALONE JR.	AL	965	114	1469	8/3/36	AL	BS, U. of Ala. '57	MBA, Wharton '60	Finance	34	32
SOUTHWEST AIRLINES	HERBERT D. KELLEHER	TX	1685	91	4948	3/12/31	NJ	BA, Wesleyan '53	LLB, NYU '56	Legal	26	12

EXECUTIVE TO WATCH

▶ The iconoclast of the airline business is now every rival's role model—and worst enemy. His low costs and rock-bottom fares are causing fits for aviation's Big Three. The only major airline to post a profit in each of the last three years, Southwest has inspired a slew of small imitators. But most are staying out of its way. He'll keep squeezing costs but has no plans to change a strategy that has served him so well for two decades.

SOUTHWESTERN BELL	EDWARD E. WHITACRE JR.	TX	10015	1302	26478	11/4/41	TX	BS, Tex. Tech '64		Technical	30	4
SOUTHWESTERN PUBLIC SERVICE	BILL D. HELTON	TX	749	103	1258	9/6/38	TX	BSEE, Tex. Tech '64		Technical	36	3
SPIEGEL	JOHN J. SHEA	IL	2219	39	1327	3/1/38	NJ	BS, LaSalle '59	MS, U. of Pittsburgh '60	Marketing	12	8
SPRINGS INDUSTRIES	WALTER Y. ELISHA	SC	1976	45	635	12/10/32	IN	BA, Wabash '54	MBA, Harvard '65	Mktg/Adm	14	12
SPRINT	WILLIAM T. ESREY	KS	9230	427	12499	1/17/40	PA	BA, Denison '61	MBA, Harvard '64	Finance	14	8
STANDARD FEDERAL BANK	THOMAS R. RICKETTS	MI	824	96	893	3/4/31	MI	BBA, U. of Mich. '53	JD, U. of Mich. '56	Banking	37	20

THE CORPORATE ELITE

	CEO	HDQ LOC	SALES $ MIL	PROFITS $ MIL	MKT VAL $ MIL	BORN	PLACE	COLLEGE EDUCATION	GRADUATE STUDY	CAREER PATH	TENURE COMPANY	TENURE CEO	PAY $ THOUS
EY WORKS	RICHARD H. AYERS	CT	2218	98	1868	10/12/42	MA	BS, MIT '65	MS, MIT '65	Prodn/Ops	22	6	711
S	THOMAS GEORGE STEMBERG	MA	883	16	657	1/18/49	NJ	AB, Harvard '71	MBA, Harvard '73	Marketing	8	8	440
BANC	JERRY A. GRUNDHOFER	OH	642	76	1014	9/2/44	CA	BA, Loyola '67		Fin/Banking	0	0	NA
UCKS	HOWARD D. SCHULTZ	WA	93	4	640	7/19/53	NY	BS, No. Mich. '75		Marketing	6	6	305
ER	DAVID A. BECKERMAN	CT	283	25	647	12/24/42	CT	BS, U. of Bridgeport '64		Marketing	22	22	5605
STREET BOSTON	MARSHALL N. CARTER	MA	1417	160	2572	4/23/40	VA	BS, U.S. Mil. Acad. '62	MS, USN Postgrad '70; MA, Geo. Washington '76	Finance	2	2	1000
RT & STEVENSON SERVICES	BOB H. O'NEAL	TX	813	44	1594	10/6/34	TX	BA, East Tex. State '55		Management	29	3	500
& SHOP	LEWIS G. SCHAENEMAN JR.	MA	3352	54	1276	4/5/31	MA	BS, Cornell '52	MBA, Harvard '56	Marketing	27	4	1093
GE TECHNOLOGY	RYAL ROBERT POPPA	CO	1521	15	1205	11/7/33	ND	BS, Claremont McKenna '57		Marketing	9	9	649
E RITE [12]	JOHN J. PHELAN	MA	586	62	715	Age 63	MA	Clark		Marketing	25	0	NA
ER	JOHN WILFORD BROWN	MI	477	48	1336	9/15/34	TN	BS, Auburn '57		Administration	17	17	600
E PAPER	WINFRED LAMOTTE THORNTON	FL	592	16	1548	7/9/28	NC	MS, VMI '50		Technical	26	2	152
DE MEDICAL	RONALD A. MATRICARIA	MN	240	102	1538	11/2/42	CT	BS, Mass. Coll. Pharm. '66		Marketing	0	0	NA
UL	DOUGLAS W. LEATHERDALE	MN	4499	-233	3806	12/6/36	Canada	BA, United '57		Finance	22	3	628
	ROBERT H. CAMPBELL	PA	8626	-317	2983	6/11/37	PA	BCE, Princeton '59	MS, Carnegie-Mellon '61; MS, MIT '78	Technical	33	2	499
ICROSYSTEMS	SCOTT G. McNEALY	CA	3589	173	2671	11/13/54	IN	BA, Harvard '76	MBA, Stanford '80	Production	12	10	996
MERICA	ELI BROAD	CA	802	72	1255	6/6/33	NY	BA, Mich. State '54		Finance	36	36	1348
AM-OSTER	ROGER W. SCHIPKE	RI	967	66	1543	1/6/37	MO	BSBA, Wash. U. (Mo.) '58	MBA, NYU '61	Administration	0	0	NA
TRAND	HARRY C. STONECIPHER	IL	1673	83	1493	5/16/36	TN	BS, Tenn. Poly. Inst. '60		Technical	7	5	1206
UST BANKS	JAMES B. WILLIAMS	GA	3110	413	5237	3/21/33	TN	AB, Emory '55		Finance	38	3	680
OR INDUSTRIES INTERNATIONAL	LOUIS L. BORICK	CA	325	29	1320	11/30/23	MN	U. of Minn.		Technical	36	36	1673
VALU	MICHAEL W. WRIGHT	MN	12568	165	2601	6/13/38	MN	BA, U. of Minn. '61	LLB, U. of Minn. '63	Legal	17	12	1488
CAL CARE AFFILIATES	JOEL C. GORDON	TN	225	29	634	1/5/29	KY	BS, U of Ky '51		Mktg/Mgmt	11	7	1142
E	MARK B. HOFFMAN	CA	265	24	1382	11/9/46	MN	BS, U.S. Mil. Acad. '69	MBA, U. of Ariz. '79	Finance	9	9	527
SYS	HARVEY C. JONES	CA	63	7	683	1/23/53	VA	BS, Georgetown '74	MS, MIT '80	Marketing	6	6	210
TICS COMMUNICATIONS	ANDREW K. LUDWICK	CA	389	42	1772	10/30/45	OH	BA, Harvard '67	MBA, Harvard '69	Marketing	8	8	464
US FINANCIAL	JAMES HUBERT BLANCHARD	GA	595	61	1258	7/22/41	GA	BBA, U. of Ga. '63	LLB, U. of Ga. '65	Banking	23	22	406
C	PAUL E. FREIMAN	CA	2085	472	4004	7/23/34	NY	BS, Fordham '55		Marketing	31	4	1032
	JOHN F. WOODHOUSE	TX	8893	172	5388	11/30/30	DE	BA, Wesleyan '53	MBA, Harvard '55	Finance	24	11	1031
BRANDS	HOWARD B. WENTZ JR. [13]	NY	684	122	1744	1/10/30	PA	BSE, Princeton '52	MBA, Harvard '57	Production	0	0	NA
M COMPUTERS	JAMES G. TREYBIG	CA	2037	-41	1002	9/28/40	TX	BA'63/BSEE'64, Rice	MBA, Stanford '68	Mktg/Finance	19	19	587
	JOHN V. ROACH	TX	4742	184	1887	11/22/38	TX	BA, TCU '61	MBA, TCU '65	Marketing	26	12	856
AN CENTERS	ROBERT S. TAUBMAN	MI	2	2	647	12/27/53	MI	BS, Boston U. '76		Finance	17	4	750
NERGY	TIMOTHY L. GUZZLE	FL	1183	153	2848	11/4/36	IA	BS'58/MS'59, U. of Okla.	PhD, TCU '65	Technical	6	4	597
SEH PRODUCTS	TODD WESLEY HERRICK	MI	1259	52	810	11/29/42	MI	BA, Notre Dame '67		Tech/Prodn	21	7	250
INIX	JEROME J. MEYER	OR	1302	-58	770	2/18/38	MN	BA, U. of Minn. '60		Technical	3	3	661
MMUNICATIONS	JOHN C. MALONE	CO	3574	-19	11088	3/7/41	CT	BS, Yale '63	MS, NYU '65; MS '64/ PhD '67 Johns Hopkins	Tech/Fin/Adm	20	20	493
NE	WILLIAM PHILIP RUTLEDGE	CA	2888	46	1378	1/6/42	PA	BS, Lafayette '63	MS, Geo. Washington '67	Production	8	3	550
ONE & DATA SYSTEMS	LEROY T. CARLSON JR.	IL	454	38	2183	9/27/46	IL	BS, Harvard '68	MBA, Harvard '71	Finance	19	7	338
S	MICHAEL J. BIRCK	IL	259	17	832	1/25/38	MO	BSEE, Purdue '60	MSEE, NYU '62	Technical	18	18	339
INLAND	CLIFFORD J. GRUM	TX	2713	147	2378	12/12/34	IA	BA, Austin '56	MBA, Wharton '58	Fin/Publish	25	10	700
O	MICHAEL H. WALSH	TX	13139	-683	9004	7/8/42	NY	BA, Stanford '64	LLB, Yale '69	Management	2	2	2716
NE	ALEXANDER V. d'ARBELOFF	MA	530	23	934	12/21/27	France	BS, MIT '49		Marketing	33	22	554
	ALFRED C. DeCRANE JR.	NY	36812	1012	16766	6/11/31	OH	BA, Notre Dame '53	LLB, Georgetown '59	Legal	35	0	1391
NSTRUMENTS	JERRY R. JUNKINS	TX	7440	247	6911	12/9/37	IA	BS, Iowa St. '59	MS, SMU '68	Technical	34	8	900
JTILITIES	JERRY S. FARRINGTON	TX	4908	738	10818	7/7/34	TX	BBA, U. of No. Tex. '55	MBA, U. of North Tex. '58	Administration	36	7	700
N	JAMES F. HARDYMON	RI	8344	324	4991	11/11/34	KY	BS, U. of Ky '56	MS, U. of Ky. '58	Mktg/Tech	4	2	1500
O ELECTRON	GEORGE NICHOLAS HATSOPOULOS	MA	947	61	1704	1/7/27	Greece	BS'49/MS'50, MIT	ME '54/ScD '56, MIT	Technical	37	37	766
O INSTRUMENT SYSTEMS	ARVIN H. SMITH	NM	423	33	1307	5/16/29	TX	BS, TCU '59		Technical	23	7	427
S & BETTS	T. KEVIN DUNNIGAN	NJ	1051	51	1198	1/31/38	Canada	AB, Loyola (Canada) '71		Marketing	31	9	883
	ERIC A. BENHAMOU	CA	408	4	811	8/28/55	France	DI, Ecole Nat. Sup. '76	MS, Stanford '77	Technical	6	3	398

EXECUTIVE TO WATCH

▶ The country's largest toolmaker has been in a rut since Ayers became CEO six years ago. He blames the weak housing-construction market for his company's woes. But Stanley has had other problems, too. Last year, Ayers fought off a takeover attempt by Newell. Then, in April, he settled a lawsuit filed by the U.S. Justice Dept. alleging price-fixing on door hinges. Without admitting guilt, Stanley agreed to pay a $5 million fine.

COMPANY	CEO	HDQ LOC	SALES $ MIL	PROFITS $ MIL	MKT VAL $ MIL	BORN	PLACE	COLLEGE EDUCATION	GRADUATE STUDY	CAREER PATH	TENURE COMPANY	TENURE CEO	AGE
TIDEWATER	JOHN PETER LABORDE	LA	476	28	1150	11/5/23	LA	BS, LSU '47	JD, LSU '49	Administration	37	37	8
TIME WARNER	GERALD M. LEVIN	NY	13070	86	15405	5/6/39	PA	BA, Haverford '60	LLB, U. of Pa. '63	Legal	21	1	36
TIMES MIRROR	ROBERT F. ERBURU	CA	3702	57	4099	9/27/30	CA	BA, USC '52	JD, Harvard '55	Legal	32	12	8
TIMKEN	JOSEPH F. FOOT JR.	OH	1642	4	1013	Age 57	OH	AB, Princeton '57	MBA, Harvard '61	Production	31	1	4
TJX	BERNARD CAMMARATA	MA	3261	104	2052	2/7/40	NY			Marketing	16	4	2
TOOTSIE ROLL INDUSTRIES	MELVIN J. GORDON	IL	245	32	732	11/26/19	MA	AB, Harvard '41	MBA, Harvard '43	Management	31	31	6
TORCHMARK	RONALD K. RICHEY	AL	2046	265	4246	6/16/26	KS	BA, Washburn '49	LLB, Washburn '51	Legal	30	9	2
TOSCO	THOMAS D. O'MALLEY	CT	1861	30	761	7/20/41	NY	BS, Manhattan '63		Trading	4	4	
TOTAL SYSTEM SERVICES	RICHARD W. USSERY	GA	130	18	837	5/7/47	GA	BS, Auburn '69		Operations	28	11	
TOYS 'R' US	CHARLES P. LAZARUS	NJ	7169	438	10618	10/4/23	DC			Entrepreneur	45	45	
TRANSAMERICA	FRANK C. HERRINGER	CA	4988	343	4661	11/12/42	NY	AB, Dartmouth '64	MBA, Amos Tuck '65	Administration	15	2	
TRANSATLANTIC HOLDINGS	MAURICE RAYMOND GREENBERG	NY	619	72	1342	5/4/25	NY	Cert., U. of Miami '48	LLB, N.Y. Law '50	Finance	7	7	
TRANSCO ENERGY	JOHN P. DESBARRES	TX	2724	-49	696	7/8/39	MA	AB, Worcester JC '60		Marketing	2	2	
TRAVELERS [14]	EDWARD H. BUDD	CT	9676	-827	4936	4/30/33	OH	BS, Tufts '55		Actuarial	38	12	
TRIBUNE	CHARLES T. BRUMBACK	IL	2096	137	3419	9/27/28	OH	AB, Princeton '50	U. of Toledo	Finance	36	3	
TRINITY INDUSTRIES	W. RAY WALLACE	TX	1540	45	1387	3/25/23	LA	BS, La. Tech '44		Management	47	35	
TRINOVA	DARRYL F. ALLEN	OH	1696	14	822	9/7/43	MI	BA, Mich. State '65	MBA, U. of Mich. '66	Finance	21	7	
TRITON ENERGY	THOMAS G. FINCK	TX	228	-96	1156	6/24/46	NY	BSME, Tufts '69		Tech/Finance	1	1	
TRW	JOSEPH T. GORMAN	OH	8311	194	4158	10/1/37	IN	BA, Kent St. '59	LLB, Yale '62	Legal/Mgmt	25	5	
TURNER BROADCASTING SYSTEM	ROBERT EDWARD TURNER	GA	1770	34	4709	11/19/38	OH	Brown		Communs	30	30	

EXECUTIVE TO WATCH

▶ With a cable-TV empire and two professional sports teams, what more could he want? Try movie studio—make that two. Turner is buying New Line Cinema and Castle Rock Entertainm to provide programming for his cable network. But he may not be satisfied. He was mentione Wall Street as one of many potential spoilers eyeing the proposed Viacom-Paramount deal. Analysts, however, say big shareholders told him to let this expensive deal go by.

20th CENTURY INDUSTRIES	NEIL H. ASHLEY	CA	1002	117	1608	3/26/23	WA		JD, U. of Montana '50	Legal	10	0	
TYCO LABORATORIES	L. DENNIS KOZLOWSKI	NH	3066	95	2089	11/16/46	NJ	BS, Seton Hall '68	Seton Hall	Finance	18	1	
TYSON FOODS	LELAND E. TOLLETT	AR	4169	161	3148	1/21/37	AR	BS, U. of Ark. '58	MS, U. of Ark. '59	Prodn/Ops	35	2	
U.S. BANCORP	ROGER L. BREEZLEY	OR	1935	208	2558	4/1/38	ND	BS/BA, U. of N.D. '60		Finance	16	6	
U.S. CELLULAR	H. DONALD NELSON	IL	164	6	1823	11/23/33	IL	BS, Northwestern '55	MBA, Northwestern '59	Marketing	10	7	
U.S. HEALTHCARE	LEONARD ABRAMSON	PA	2189	200	4709	11/12/32	PA	BA, Penn State '54; BS, Phila. P&S '60		Admin/Dev	17	17	
U.S. SURGICAL	LEON C. HIRSCH	CT	1197	139	1287	7/20/27	NY			Marketing	29	29	
UAL	STEPHEN M. WOLF	IL	12890	-417	3592	8/7/41	CA	BA, San Francisco St '65		Marketing	6	6	

EXECUTIVE TO WATCH

▶ Is he ready to leave? He might have to if unions end up buying 60% of the struggling carri in return for wage and benefit cuts. Wolf earned workers' ire in the 1980s when he opposed un attempts to buy United. This time, he supports an employee buyout. But the unions might still v him out if they take charge. Still, don't cry for Wolf. His golden parachute would hand him m than $1.5 million.

UGI	JAMES A. SUTTON	PA	708	36	741	6/29/34	IN	BS, Purdue '57		Management	11	8	
UJB FINANCIAL	T. JOSEPH SEMROD	NJ	1130	54	1479	12/13/36	OK	BS, U. of Okla. '58	LLB, U. of Okla. '63	Banking	12	12	
ULTRAMAR	JEAN GAULIN	CN	2595	43	916	7/9/42	Canada	BS, U of Montreal '67		Production	24	4	
UNIFI	WILLIAM T. KRETZER	NC	1091	63	1716	7/5/46	PA	BA, N.C. State '68		Marketing	22	8	
UNION BANK	KANETAKA YOSHIDA	CA	1386	103	937	3/12/38	Japan	BL, U. of Tokyo Law '62		Finance	8	0	
UNION CAMP	R. EUGENE CARTLEDGE	NJ	3064	43	3190	6/12/29	FL	BS, U of Ala. '52		Mktg/Sales	37	8	
UNION CARBIDE	ROBERT DELMONT KENNEDY	CT	4872	119	2783	11/8/32	PA	BS, Cornell '55		Marketing	38	7	
UNION ELECTRIC	WILLIAM E. CORNELIUS	MO	2100	303	4545	9/6/31	UT	BS, U. of Mo. '53	MA, Wash. U. (Mo.) '83	Finance	31	9	
UNION PACIFIC	DREW LEWIS	PA	7294	728	13476	11/3/31	PA	BS, Haverford '53	MBA, Harvard '55	Finance	7	6	
UNION TEXAS PETROLEUM HOLDINGS	A. CLARK JOHNSON	TX	669	109	2317	12/7/30	PA	BA Haverford '52	MBA, Wharton '54	Marketing	25	9	
UNISYS	JAMES A. UNRUH	PA	8423	296	1811	3/22/41	ND	BS, Jamestown '63	MBA, U. of Denver '64	Finance	12	3	
UNITED ASSET MANAGEMENT	NORTON HERBERT REAMER	MA	295	35	1026	9/21/35	NY	AB/BEE, Union '58	MBA, Harvard '60	Finance	13	13	
UNITED HEALTHCARE	WILLIAM WAYNE McGUIRE	MN	1442	114	3708	4/15/48	NY	BA, U. of Tex. '70	MD, U of Tex '74	Technical	5	3	
UNITED INVESTORS MANAGEMENT	R.K. RICHEY	AL	334	75	1200	6/16/26	KS	BA, Washburn '49	LLB, Washburn '51	Legal	2	2	
UNITED MISSOURI BANCSHARES	RUFUS CROSBY KEMPER	MO	367	39	696	2/22/27	MO	U. of Mo.		Finance	43	35	
UNITED TECHNOLOGIES	ROBERT F. DANIELL	CT	21641	35	7165	10/31/33	MA	AS, Boston U CIT '54		Tech/Mktg	37	8	
UNITRIN	RICHARD C. VIE	IL	1363	163	2280	9/26/37	MO	St. Louis, U. of Mo.		Finance	3	2	
UNIVERSAL	HENRY HOWZE HARRELL	VA	3047	80	819	9/18/39	VA	AB, Washington & Lee '61		Sales/Mktg	27	5	

A Clear View of Europe

This clear view of Europe is actually a composite image, created from dozens of satellite photographs, selected by experts and seamlessly integrated to provide an unusually cloud-free perspective.

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THE CORPORATE ELITE

COMPANY	CEO	HQ	SALES ($MIL.)	PROFITS ($MIL.)	MKT VAL ($MIL.)	BORN	FROM	UNDERGRADUATE EDUCATION	GRADUATE STUDY	CAREER PATH	TENURE: COMPANY	TENURE: CEO
UNIVERSAL FOODS	GUY A. OSBORN	WI	883	42	863	2/19/36	IL	BS Northwestern '58		Marketing	20	5
UNOCAL	RICHARD J. STEGEMEIER	CA	8895	196	7084	4/1/28	IL	BS U. of Mo.-Rolla '50	MS Tex. A&M '51	Tech./Prodn	42	5
UNUM	JAMES F. ORR III	ME	2641	249	4609	3/9/43	MN	BS Villanova '65	MBA Boston U. '70	Finance	7	6
UPJOHN	LEY S. SMITH	MI	3669	347	4787	7/12/34	Canada	BA U. of W. Ontario '58		Marketing	35	6
US WEST	RICHARD D. McCORMICK	CO	10281	1079	19059	7/4/40	IA	BS Iowa St. '61		Operations	30	3
USAIR GROUP	SETH E. SCHOFIELD	VA	6686	-601	745	8/22/39	CT			Operations	36	2
USF&G	NORMAN P. BLAKE JR.	MD	3660	35	1569	11/8/41	NY	BA Purdue '66	MA Purdue '67	Finance	3	3
USG	EUGENE B. CONNOLLY	IL	1777	-191	650	3/31/32	NY	BS Hofstra '54	MBA Hofstra '64	Marketing	35	3
USLIFE	GORDON EUGENE CROSBY JR.	NY	5129	70	907	7/14/20	IA	U. of Mo.		Marketing	34	27
UST	LOUIS E. BANTLE	CT	903	303	5791	11/22/28	CT	BS Syracuse '51		Marketing	31	6
USX-MARATHON GROUP	CHARLES A. CORRY	PA	11107	109	6803	2/14/32	OH	BA Cincinnati '55	JD Cincinnati '59	Finance	34	4
USX-U.S. STEEL GROUP	CHARLES A. CORRY	PA	4947	-271	2306	2/14/32	OH	BA Cincinnati '55	JD Cincinnati '59	Finance	34	4
UTILICORP UNITED	RICHARD C. GREEN JR.	MO	1249	53	1357	5/6/54	MO	BS SMU '76		Finance	26	8
VALERO ENERGY	WILLIAM EUGENE GREEHEY	TX	2315	84	1844	6/9/36	IA	BBA St. Mary's '60		Finance	30	19
VALHI	HAROLD CLARK SIMMONS	TX	890	30	642	3/10/19	TX	BA U. of Tex. '37	MA U. of Tex. '50	Entrepreneur	11	11
VALSPAR	C. ANGUS WURTELE	MN	693	34	597	8/25/34	MN	BA Yale '56	MBA Stanford '61	Production	31	23
VALUE HEALTH	ROBERT E. PATRICELLI	CT	236	16	470	2/9/39	CT	AB Harvard '61	LLB Harvard '65	Govt. Affs.	7	7
VANGUARD CELLULAR SYSTEMS	HAYNES GLENN GRIFFIN	NC	90	27	739	2/3/47	NC	BA Princeton '69		Entrepreneur	10	9
VARIAN ASSOCIATES	J. TRACY O'ROURKE	CA	2288	39	997	3/24/35	SC	BS Auburn '56		Mktg./Tech.	4	4
VARITY	VICTOR ALBERT RICE	NY	3875	33	1795	5/7/40	England			Finance	23	13
VERIFONE	HATIM A. TYABJI	CA	206	24	640	8/20/49	India	BS Coll. of Eng. '67	MS SUNY Buffalo '69 MBA Syracuse '72	Technical	7	7
VF	LAWRENCE R. PUGH	PA	3824	207	2086	1/20/33	NY	BA Colby '56		Marketing	14	3
VIACOM INTERNATIONAL	FRANK J. BIONDI JR.	NY	8965	99	7849	7/9/45	NY	BA Princeton '66	MBA Harvard '68	Mktg./Finance	8	6
VIKING OFFICE PRODUCTS	IRWIN HELFORD	CA	1200	32	664	6/18/33	IL			Marketing	10	4
VISHAY INTERTECHNOLOGY	FELIX ZANDMAN	PA	894	80	748	3/7/28	Poland	BS U. Nancy '49	MS, PhD Sorbonne '55	Technical	31	31
VONS	ROBERT E. STANGELAND	CA	3795	82	823	8/4/39	IL	BS U. of Ill. '61		Marketing	30	8
VULCAN MATERIALS	HERBERT ANTHONY SKLENAR	AL	1079	91	1699	5/7/30	NE	BS U. of Neb., Omaha '52	MBA Harvard '54	Finance	21	7

WHO'S USING INVESTMENT PERFORMANCE TO MAKE LIFE BETTER?

THE CORPORATE ELITE

	CEO	HDQ LOC	SALES $ MIL	PROFITS $ MIL	MKT VAL $ MIL	BORN	PLACE	COLLEGE EDUCATION	GRADUATE STUDY	CAREER PATH	TENURE COMPANY	TENURE CEO	PAY $ THOUS
ACHOVIA	JOHN G. MEDLIN JR.	NC	2778	433	6137	11/23/33	NC	BS, U. of N.C. '56		Operations	34	17	1176
MART STORES	DAVID D. GLASS	AR	55484	1995	59801	9/2/35	MO	BS, Southwest Mo. St. '59		Finance	17	6	850
REEN	CHARLES R. WALGREEN III	IL	7475	221	4723	11/11/35	IL	BS, U. of Mich. '58		Mktg/Ops	41	22	1194
ACO GROUP	LINDA J. WACHNER	NY	625	48	654	2/3/46	NY	BS, SUNY/Buffalo '66	CUNY	Marketing	7	6	3160
ER-LAMBERT	MELVIN R. GOODES	NJ	5598	644	9510	4/11/35	Canada	BC, Queen's (Canada) '57	MBA, U. of Chicago '60	Marketing	28	2	1565
INGTON FEDERAL SAVINGS	GUY C. PINKERTON	WA	278	82	985	8/1/34	WA	BA, U. of Wash. '59		Finance	28	1	224
INGTON GAS LIGHT	PATRICK J. MAHER	DC	746	52	908	4/20/36	Ireland	BBA, Iona '59	MBA, NYU '65	Finance	19	2	407
INGTON MUTUAL SAVINGS	KERRY K. KILLINGER	WA	780	100	1074	6/6/49	IA	BA, U. of Iowa '70	MBA, U. of Iowa '71	Marketing	11	3	611
INGTON POST	DONALD E. GRAHAM	DC	1451	128	2609	4/22/45	MD	BA, Harvard '66		Journalism	22	2	400
INGTON REIT	B. FRANKLIN KAHN	MD	37	20	639	2/4/25	DC	BS, Wharton '46		Finance	33	33	552
NGTON WATER POWER	PAUL ANTHONY REDMOND	WA	558	72	1045	1/23/37	OR	BS, Gonzaga '65		Technical	28	9	460
AU PAPER MILLS	ARNOLD M. NEMIROW	WI	371	40	766	3/25/43	CT	AB, Harvard '66	JD, U. of Mich. '69	Legal	3	3	518
ARTEN REALTY INVESTORS	STANFORD J. ALEXANDER	TX	90	21	1088	8/15/28	TX	BS, U. of Tex. '49	MBA, Harvard '52	Marketing	38	31	692
MARKETS	SIGFRIED WEIS	PA	1289	72	1216	2/18/16	PA	BA, Yale '38		Administration	54	33	460
LEET COMMUNICATIONS	PAUL JOSEPH SEVERINO	MA	85	11	1488	11/11/46	NJ	BSEE, RPI '69		Technical	7	7	211
LAN	THOMAS MICHAEL DUFF	NJ	828	52	648	7/30/47	NJ	BA, Rutgers '70		Administration	22	8	858
OINT HEALTH NETWORKS	LEONARD D. SCHAEFFER	CA	2275	175	2811	7/28/45	IL	BS, Princeton '69		Finance/Mgmt	1	1	908
FARGO	CARL E. REICHARDT	CA	5204	283	6471	7/6/31	TX	AB, USC '56		Finance	23	11	775
'S INTERNATIONAL	JAMES WHITNEY NEAR	OH	1220	65	1449	3/19/38	OH	BS, Hanover '61		Management	19	3	1228
) FINANCIAL	CHARLES T. MUNGER	CA	132	5	1047	1/1/24	NE	U. of Mich., Cal. Tech	JD, Harvard '48	Legal	10	10	102

EXECUTIVE TO WATCH

▶ He's finding Sam Walton a tough act to follow. Wal-Mart enjoys big profit gains, but sales growth is slowing. Glass is also grappling with the retailing giant's image problems, including allegations of predatory pricing. Still, Walton's handpicked successor is pushing ahead with plans to expand warehouse clubs and grocery/discount stores. Having expanded into Mexico in a joint venture, he is eyeing new locations in Canada and Europe.

COMPANY	CEO	HDQ LOC	SALES $ MIL	PROFITS $ MIL	MKT VAL $ MIL	BORN	PLACE	COLLEGE EDUCATION	GRADUATE STUDY	CAREER PATH	TENURE COMPANY
WEST ONE BANCORP	DANIEL R. NELSON	ID	517	63	944	8/12/37	WA	BBA, Wash. State '62		Finance	9
WEST POINT-PEPPERELL	HOLCOMBE T. GREEN JR.	GA	1496	-199	1436	9/29/39	GA	AB, Yale '61	LLB, U. of Va. '67	Legal	1
WESTERN GAS RESOURCES	BRION G. WISE	CO	591	40	1081	9/17/45	WA	BS, Wash. State '68		Technical	22
WESTERN RESOURCES	JOHN E. HAYES JR.	KS	1556	128	2162	9/22/37	MO	BS, Rockhurst '59		Administration	4
WESTINGHOUSE ELECTRIC	MICHAEL H. JORDAN	PA	8447	348	5444	6/15/36	MO	BS, Yale '57	MS, Princeton '59	Consulting/Mgmt	0
WESTVACO	JOHN A. LUKE JR.	NY	2336	136	2434	11/24/48	NY	BA, Lawrence '71	MBA, Wharton '79	Finance	14
WEYERHAEUSER	JOHN W. CREIGHTON JR.	WA	9219	372	8430	9/1/32	PA	BS, Ohio St. '54	JD, Ohio St. '57; MBA, U. of Miami '65	Finance	23
WHEELABRATOR TECHNOLOGIES	PHILLIP B. ROONEY	IL	1483	176	3333	7/8/44	IL	BA, St. Bernard '66		Administration	5
WHIRLPOOL	DAVID R. WHITWAM	MI	7301	205	4666	1/30/42	WI	BS, U. of Wis. '67	U. of Wis.	Marketing	25
WHITMAN	BRUCE S. CHELBERG	IL	2388	92	1581	8/14/34	IL	BS, U. of Ill. '56	LLB, U. of Ill. '58	Administration	12
WILLAMETTE INDUSTRIES	WILLIAM SWINDELLS	OR	2372	82	2288	9/16/30	CA	BS, Stanford '53		Production	40
WILLIAMS [3]	JOSEPH HILL WILLIAMS	OK	2448	128	3038	6/2/33	OK	BA, Yale '56		Operations	34
WILMINGTON TRUST	LEONARD W. QUILL	DE	426	79	1101	12/11/31	DE	BS, U. of Del. '58	MBA, U. of Del. '65	Banking	36
WINN-DIXIE STORES	A. DANO DAVIS	FL	10337	216	4533	6/2/45	NY	Stetson		Marketing	25
WISCONSIN ENERGY	RICHARD A. ABDOO	WI	1552	176	2984	1/27/44	MI	BS, U. of Dayton '65	MA, U. of Detroit '69	Technical	18
WISCONSIN PUBLIC SERVICE	DANIEL ARTHUR BOLLOM	WI	635	58	821	4/25/36	WI	BBA, U. of Wis. '58	U. of Wis./Oshkosh	Finance	35
WITCO	WILLIAM R. TOLLER	NY	1729	54	1581	8/10/30	AR	BS, U. of Ark. '56		Finance	9
WMS INDUSTRIES	LOUIS J. NICASTRO	IL	227	25	641	7/22/28	NY		MBA, Columbia '56	Finance	12
WMX TECHNOLOGIES	DEAN L. BUNTROCK	IL	8661	921	14651	6/6/31	SD	BA, St. Olaf '55		Entrepreneur	25

EXECUTIVE TO WATCH

▶ This big-game hunter's growth machine is slowing. His Waste Management unit is sufferi from the slack economy and the success of big companies at reducing waste. WMX put off pl for new hazardous-waste incinerators. Now, Buntrock faces the painful prospect of writing do the assets of Chemical Waste Management. Longer-term, there could be a silver lining: Tou landfill rules may raise rivals' costs more than those of the high-tech WMX.

THE CORPORATE ELITE

Y	CEO	HDQ LOC	SALES $ MIL	PROFITS $ MIL	MKT VAL $ MIL	BORN	PLACE	COLLEGE EDUCATION	GRADUATE STUDY	CAREER PATH	TENURE COMPANY	TENURE CEO	PAY $ THOUS
WORTH	WILLIAM K. LAVIN	NY	9962	280	3300	9/23/44	NY	BBA, St. John's '65		Finance	13	0	746
THINGTON INDUSTRIES	JOHN P. McCONNELL	OH	1116	66	1832	12/3/53	OH	U. of Louisville		Administration	18	0	460
HOLDINGS	ERROLL B. DAVIS JR.	WI	652	61	1064	8/5/44	PA	BS, Carnegie-Mellon '65	MBA, U. of Chicago '67	Finance	15	3	480
LEY (WM.) JR.	WILLIAM WRIGLEY	IL	1287	149	4749	1/21/33	IL	BA, Yale '54		Administration	37	33	699
ROX	PAUL ARTHUR ALLAIRE	CT	17040	-256	7685	7/21/38	MA	BS, Worcester Poly. '60	MS, Carnegie-Mellon '66	Finance	27	3	1525
X	BERNARD V. VONDERSCHMITT	CA	178	27	994	10/14/23	IN	BS, Rose-Hulman Tech '44	MSEE, MBA, U. of Pa. '56	Technical	10	10	213
	LEWIS RUBIN	MA	203	27	736	1/11/38	NY	BBA, CCNY '60		Finance	4	3	602
LOW	GEORGE E. POWELL III	KS	2263	41	653	10/18/48	MO	BS, Indiana '70	Indiana	Operations	23	3	456
INTERNATIONAL	ROBERT N. POKELWALDT	PA	1939	69	1355	8/11/36	NY	BS, SUNY/Buffalo '60	Millard Fillmore	Prodn/Mgmt	5	2	552

E CHIEF EXECUTIVES whose entries appear in these tables were se-
ted on the basis of the market values of their companies as of Aug.
1993. The companies included in these tables are substantially the
ne as those ranked in the 1993 BUSINESS WEEK 1000 Special Issue
or. 2). New companies have been added to the list to replace those
longer publicly traded because they were merged or reorganized.
he information that appears in each CEO entry was compiled from
ariety of sources. Most of the biographical material was supplied
ectly by each executive or by a designated official in his or her com-
ny in response to a BUSINESS WEEK questionnaire. Standard & Poor's
mpustat Services Inc. supplied all the data on sales, profits, and mar-
value. Compensation figures were taken directly from the most re-
nt proxy statements or from direct company sources.

LES AND PROFITS. The numbers in the BUSINESS WEEK Corporate
e tables reflect the most recent fiscal year for which complete data were available. For most companies, they exclude other income and excise taxes, as well as the financial results of unconsolidated subsidiaries. Profits are defined as aftertax earnings from continuing operations, before extraordinary items. For companies in financial industries (banks, insurance, etc.), revenues may include investment income; for insurance companies, net income is defined as net aftertax operating income.

MARKET VALUE. This calculation is based on share prices as of stock market close, Aug. 27, 1993, and the latest available number of shares outstanding.

COMPENSATION. The amount shown is salary and short-term bonus as reported to the Securities & Exchange Commission. Long-term compensation is normally excluded.

TENURE. When the exact month and year of company or CEO tenure is available, years of tenure are rounded upward if months of service are seven or more.

cheduled to merge with Cyprus Minerals. 2. Scheduled to merge with Dresser Inds. 3. New CEO will take over Jan. 1, 1994. 4. New CEO scheduled to take over. 5. Scheduled to merge
Mattel. 6. Co-CEO with Louis Simpson. 7. CEO as of November 1993. 8. Premerger market value. 9. Scheduled to merge with AT&T. 10. Scheduled to merge with Merck. 11. Scheduled
ep down Oct. 1, 1993. 12. Acting CEO. 13. Chairman of the board; no CEO named yet. 14. Scheduled to merge with Primerica.

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HOT RAP MASTER NAMED -SILVERMAN?

Tommy Boy label gives Warner clout in cutting-edge pop

he voice of Tommy Boy Music Inc. is a boom-box voice. It's n, angry, and violent. New York record la- s a revered messenger ie streets of America's os. To millions of poor who yearn to hear stories told, Tommy delivers—in the gun- staccato of rap.

it Tommy Boy isn't ly who you'd think he eet Thomas A. Silver- who was an aspiring gist before a stint as lege deejay led him the music business. oyal sidekick is Presi- Monica Lynch, 36, a from the Chicago bs who joined Silver- after her career as a ss dancer had, well, topped out. duo's approach to marketing rap such as Queen Latifah, Naughty by re, and House of Pain is decidedly esslike. "We're in the lifestyle ac- ements business," says Silverman, We help kids differentiate them- s from their parents."

S ROOTS. In fact, Tommy Boy is g giant Time Warner Inc. differen- itself from its competitors. When it to rap, Time Warner knew it need- me help. After watching Silver- s company grow during the 1980s, Warner's Warner Music unit ht it in 1990 for a mere $1 million. then, the label has grown from than $3 million to $40 million in . More important, Silverman has d Tommy Boy into a brand name an ultrahip image. What it lacks in it makes up for in cachet.

mmy Boy gives Warner a window e street. Rap is fueled by an in- ity sensibility that has tended to p the major record labels. Silver- is a master at finding rap talent haping it to meet the demands of lious Generation-X music buyers. as also developed a pipeline of -roots specialty record stores, the kind that lure rap loyalists. "Warner needs Tommy Boy because it has a youthful vibe from staying close to the streets," says Danyel Smith, R&B editor of *Billboard* magazine. "If you're not in touch with the streets, you're lost."

LYNCH AND SILVERMAN: BUSINESSLIKE MARKETERS

Rap may hail from the streets, but it has become much more than just a fringe market. The music is finding most of its sales these days in the suburbs. Thanks to cable shows such as *Yo! MTV Raps*, the music and its hip-hop subculture have filtered into America's mainstream—from ads for Pepsi and The Gap to Hollywood films and network sitcoms. Suburban males are buying rap records and dressing like their inner-city role models. And these "voyeurs," as Lynch calls them, are in large part responsible for rap's growth since the early 1980s into a highly fragmented $700 million category.

Problem is, rap's fickle customers make the product uniquely perishable. Few artists record more than a couple of albums, and older disks rate modest sales. As Lynch puts it: "Rap eats its young. Where are the Tony Bennetts of rap?" Small, independent labels have been the most adroit at keeping up, which is why Warner has let Silverman run his own show. The result: four platinum records since 1990.

NEW QUEEN. If Silverman is Tommy Boy's brains, Lynch is its soul. Years of hanging out at nightclubs and underground parties enable her to tap a vast network of connections that link her to undiscovered acts. When she's not in her office watching rap videos and poring through stacks of hip-hop magazines, she's judging rap contests or visiting clubs. In the late 1980s, one of her friends, MTV deejay Fab 5 Freddy, handed Lynch a rap tape by a young woman named Dana Owens. Lynch liked the tape, signed Owens, and took her shopping for African-inspired apparel and jewelry. Today, Owens is Queen Latifah, the world's most popular female rapper.

Tommy Boy's experience with the queen of rap, however, demonstrates how sober the label can be. Despite reams of media coverage and a new situation comedy on Fox Network, neither of Latifah's two albums has sold a million copies. Silverman tried to get her to branch into a softer, more commercial style, but Latifah refused to change. Tommy Boy is now negotiating to sell her contract to Motown Record Corp. Says Silverman: "Her sales just weren't commensurate with her image."

Silverman launched his label in 1981 with $10,000 he borrowed from his parents. A

TOMMY BOY'S BEST-SELLERS

Naughty By Nature
19 Naughty III
1.4 million copies in 1993

Digital Underground
Sex Packets
1.4 million
1993

Naughty By Nature
(Debut album)
1.6 million
1991

House of Pain
(Debut album)
2 million
1992

De La Soul
3 Feet High is Rising
2 million
1989

PHOTOGRAPH BY CHRIS BUCK; ILLUSTRATION BY BOB DOYLE

People

native New Yorker with a passion pop music, he had worked as a dee while studying geology at Maine's C College. But after a year in gradu school at Western Michigan Univers he traded rocks for rock. He spent t years publishing *Dance Music Rep* an industry newsletter that chroni the hottest trends in disco.

Silverman used his *Dance Music port* contacts to sign a couple of a that were pioneering a genre know "electro hip-hop." As his fledgling com ny began to grow (his headquarters in his apartment on New York's Up East Side), he placed an ad in the *lage Voice* for a support staffer. One spondent was Monica Lynch.

A music junkie, Lynch had grown in a middle-class Irish Catholic fa in Oak Park, Ill. Bright, rebellious, outspoken, she graduated from her girl private school a year early moved to downtown Chicago. She h out in the city's gay nightclubs, tra fixed by the throbbing disco scene. fore long, she was living in New Y working as a topless dancer by day partying at Studio 54 by night.

Through the '80s, Tommy Boy's s fluctuated, but Lynch's reputation finding original acts grew steadily. B was Silverman who determined wh acts Tommy Boy would back. Says W ner Senior Vice-President Ray Har "Our attraction to Tommy Boy was marily Tom Silverman."

ICED T. These days, Silverman is push the company into Tommy Boy bran clothing, while searching for a superstar. The rap market, he says, become too saturated: "I'm getting of all the violence, not because of the olence itself, but because the them getting old and tired." That's proba fine with Warner. It was only last y that the company became embroile controversy when Ice T—an artist one of its other labels—created a nat al uproar with his violent tune *Cop K er*. Warner let Ice T's contract lapse

The next star may have to come f another universe. Silverman and Ly are now targeting "dance music," a genre characterized by disembodied v puter-generated sounds. They've b getting lots of ink for a new star nam RuPaul, a seven-foot cross-dresser wh album *Supermodel Of The World* is on the charts. This Christmas, the release RuPaul's smoky remake of *Little Drummer Boy* to show off singer's vocal talents. "We've got to people to see RuPaul as more than j a seven-foot blond black drag que Silverman gripes. Warner will gla leave that to Tommy Boy.

By Ron Stodghill II in New Y

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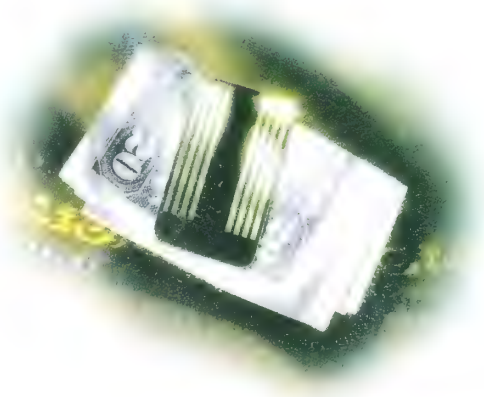
Bill Marriott



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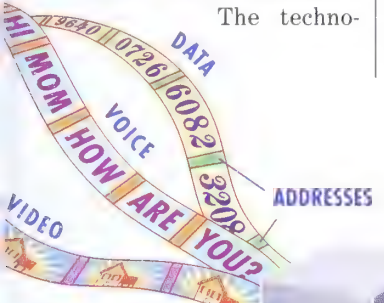
MMUNICATIONS

IE IDEAL INTERCHANGE
R THE DATA SUPERHIGHWAY

ne ATM switch—but the payoff could be years away

1989, Fujitsu Ltd. Telecommunica-
ns Director Ryoichi Sugioka was
ing heart. The company had
ed billions of yen into an exotic
ing technology called asynchro-
ransfer mode, or ATM. The proto-
showed that you could route
hing from high-definition TV to
fic computer simulations to ordi-
hone calls. But technical glitches
nbered customers. "The picture
irly grim," Sugioka recalls.

r years later, ATM is suddenly the center of a lot of attention. The techno-



erats who have over the White are going nuts over es for an information ighway. The cable industry e phone companies are both seiz- ATM as the weapon of choice in ntensifying rivalry for control of ighway. And communications ex- are concluding that ATM is the ethod for sorting the billions of digital images, sound, and text to nped over the optical fiber into and living rooms.

he betting is on: Will the lion's of ATM sales go to Fujitsu and rp., which jumped into the Amer- arket early? Or will AT&T, IBM, rn Telecom and others come on and dominate the market, as they or previous generations of voice ta gear?

DEMON. Any competitor who ATM means instant cash probably to quit telecommunications and banking. By 1977, market re- er Gartner Group Inc. projects vide sales of only $3.1 billion. sales do kick in, price competition will be vicious. Any early profits will likely come from using ATM on a smaller scale, such as hooking together local-area networks. In spite of all that, executives insist that the seeds they plant today will eventually bear fruit. "The payoff may not be until the next century," says NEC's chief manager in systems engineering, Kunihiko Taya. "But we're certain it's going to come."

What makes ATM special is its ability to switch streams of multimedia traffic at mind-boggling speeds. It divides voice, video, and data signals into packets, or cells, that can be intermingled and sped along a single line (illustration). The cells are all the same size, 52 bytes, so they can be handled quickly, and the technology allows many cells to be routed at once. One new switch made by American Telephone & Telegraph Co. can transmit 20 gigabits of data—1,600 copies of *Moby Dick*—every second.

Fujitsu and NEC, facing soft markets at home, are determined to win in the U. S. They think the transition from circuit to ATM switching could be their lucky break, much as the transition from analog to digital switching helped Northern Telecom Ltd. crack AT&T's hold of the U. S. switch market in the 1980s.

Sure enough, their early entry has given them an edge in supplying the regional phone companies (table, page 117). Last January, Nynex Corp. chose Fujitsu switches for ATM field trials in New York and New England. One goal: to deliver movies over Manhattan phone lines as early as 1994. In April, BellSouth Corp. ordered eight Fujitsu switches. In North Carolina, 500 Fujitsu engineers are helping BellSouth, GTE, and Carolina Telephone build America's most ambitious fiber superhighway.

Besides selling switches, at an estimated $1 million to $3 million apiece, Fujitsu gains software knowhow in the world's most advanced telecom market. "We can take the results of field trials with BellSouth and apply them directly to projects with Singapore Telecom," says Sugioka.

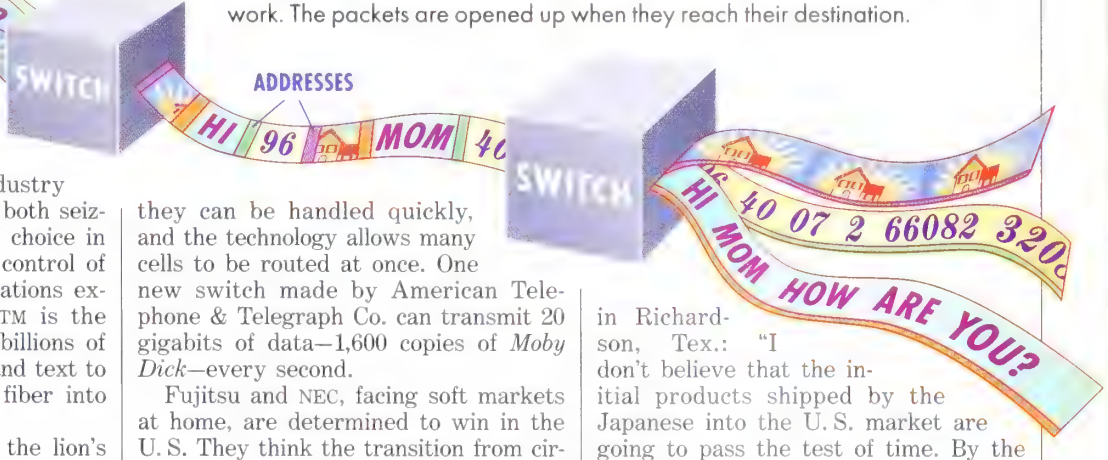
NEC, too, is learning from its U. S. customers. Long-distance carrier Williams Telecommunications Group Inc. in Tulsa bought eight NEC switches. It will use them for paying services, not just trials, says G. A. Shanholt, senior vice-president in charge of NEC America Inc.'s public switching group. In contrast to NEC's genuine hardware, he says: "Some people are selling vaporware right now."

AT&T'S ACE. That's a shot at, among other companies, Canada's Northern Telecom, which only this year is unveiling its ATM product lineup. Counters Rick Faletti, president of Northern Telecom Inc.'s multimedia communication systems unit in Richardson, Tex.: "I don't believe that the initial products shipped by the Japanese into the U. S. market are going to pass the test of time. By the time the carriers make an infrastructure decision, we're going to be there."

"We'll be there" is a common pledge. IBM, for instance, is planning to hit the market in 1994 and 1995. It will start with ATM chips and adapter cards for personal-computer networks, then move up to big switches for long-distance networking. Some of those could even be sold to phone companies as adjuncts to their networks, says James T. Boyle, director of advanced transport for IBM Networking Systems. If so, that would constitute a surprise return to telecom

A TECHNOLOGY CUSTOM-MADE FOR MULTIMEDIA

Asynchronous transfer mode (ATM) switches can handle simultaneous streams of voice, video, and data traffic. Each format is chopped up and placed into small, evenly sized packets called "cells" that mingle as they traverse the network. The packets are opened up when they reach their destination.



for Big Blue, which got badly bu
in that business in the 1980s.

But if speed is the measure of su
cess, the crown might go to AT&T
"shared memory" switch pours diff
streams of digital data into a giant
fer, from which they're shuttled do
specific subscriber's line. AT&T say
design's speed limit is a startling
gigabits per second. When it com
performance, says Francis X. Dzu
president of Washington-based co
tant Communications Network A
tects Inc., "AT&T is very well respe

SKINNY WIRE. AT&T is particularly p
of one order: Last May, Time W
Inc. and U S West Inc. picked it to
ply an ATM switch for a network i
lando that will supply video on de
and eventually phone service. That
important because other cable oper
may follow suit. Cable companies
big coaxial-cable pipelines to the h
that are well-suited for the huge c
ity of ATM. Phone companies, with
skinny copper wires going to ho
will restrict ATM initially to the hig
capacity backbones of their networ

Phone companies do have one
edge over cable companies in ATM: e
rience in running switched netw
Notes Robert M. Fredericks, execu
director for video and data service
Bellcore, the Bells' research arm:
most complicated machine that has
been built in the history of the wor
the interconnected, worldwide telep
network." ATM, with its as-yet-in
plete software for setting up call p
and avoiding congestion, will a
whole new dimension of complexity

Supplying that sophisticated softw
will be the biggest challenge for Fu
and NEC, which came up short in
circuit-switch market in the U. S.
thus can't match the software ex
ence of AT&T and Northern Tele
This time, the American market is
to them. At home in Japan, heavy r
lation and a cautious central governm
have hobbled technology infrastruct
Even flag-carrying Nippon Telegra
Telephone Corp. has lost its resolve
recently as last April, NTT was tal
about a $430 billion plan to wire a
Japan's homes with optic fiber by
year 2015. But it abruptly postponed
itial outlays until 1998, citing a lac
attractive services.

Fujitsu and NEC hope that sale
ATM will give them an entrée to
other components for the informa
highway, including optical fiber, h
speed transmission gear, and high-re
tion display screens. They and Hit
Ltd. are vying to supply the huge d
storage systems that will be neede
store movies for on-demand view

ose plans have stirred some threats apitol Hill to restrict Japan's in- ement in the American information way. In part to stave those off, NEC Fujitsu have built strong design and ufacturing facilities in North Amer- "We intend to manufacture nearly ything locally, and even to export the U. S.," says Fujitsu's Sugioka. rhaps a bigger fear, for the Ameri- as well as the Japanese, is that ATM ead of its time. The infrastructure is et in place to take advantage of blinding switching speeds. Even if a er can send streams of video or data een its switches at superhighway ds of gigabits per second, the off to the home or office is far slower. a 45-megabit-per second connection

HERE THE PLAYERS STAND

re's what some big manufacturers e doing in asynchronous transfer ode (ATM) switches.

&T Strong technology, especially in biggest switches. Time Warner ll use one for phone-and-video net- rk in Orlando.

M Starting next year, will roll out M gear for office computing and ivate networks. Hoping to edge into blic-switch market as well.

UJITSU Praised for expandability of switches. Recently won orders from ee phone companies for network in rth Carolina.

EC Through sales to long-distance rrier Williams Telecommunications, y be first with ATM switch in ser- e on public network.

ORTHERN TELECOM After a slow rt, introduced two switches this ar, including one developed with TE. A third is due in November.

the network—pokey by ATM stan- s—costs about $8,000 a month. And and for ultrahigh-capacity networks l be further delayed by new technol- s that compress rivers of data onto ing phone lines.

hat would leave ATM in the same licament as an earlier digital-com- ications standard, called ISDN. The sy moniker stands for integrated ices digital network. But to many tical engineers, the letters now sum- a sardonic "I still don't need it." n as they gird for battle over the in- ation superhighway, rivals hope ATM nology will avoid that fate and earn turn on the billions they've sunk it.

y Neil Gross in Tokyo and Peter Coy lew York

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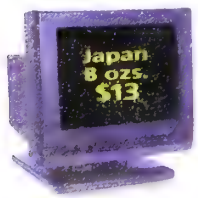

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UNITED STATES POSTAL SERVICE

evelopments to Watch

) BY RUTH COXETER

KING SOME OF THE GUESSWORK T OF CHILDBIRTH

Scientists in Germany were struck by the resemblance between forces acting on passengers and vehicles in a car crash and the pressures on mother and child during delivery. The similarities inspired a team of researchers at Electronic Data Systems Deutschland to modify software that models the forces in a car crash so that it can help obstetri- predict which women will need cesarean sections. ltrasound or other imaging readings, along with pelvic surements, are plugged into software that then calcu- the stress on both the mother and child. The program runs on a Cray supercomputer. EDS plans to adapt it to on a workstation or personal computer by the end of . Currently, it's being tested at University Women's Clin- Mannheim.

R WEIGHT-CONSCIOUS CARMAKERS: E STEEL DIET

rmakers trying to cut weight and boost fuel efficiency ave increasingly turned to aluminum and plastics. Now, steel industry is fighting back. A study co-sponsored by American Iron & Steel Institute (AISI) and Ford Motor Co. found a way, using steel, to shave at least 140 pounds . a Ford Taurus without any loss of structural rigidity—the ng of stiffness and stability in a car—or crashworthiness.) makers are accustomed to paying at least $1 per pound eight saved, because lighter materials tend to be more ex- ive. But the new method actually saves $40, in part be- e it eliminates as many as 50 parts from a car body. he trick is holistic design and engineering. Typically, car neers try to save a pound here and there from individual s, then put the weight back if rigidity suffers. The study, luctedby Porsche Engineering Services Inc. in Troy, ., a unit of Germany's Porsche, showed that using ad- ed computer techniques to find potential weight savings ughout the body worked better than trial and error. The plans to work with Porsche to spread these methods to erican auto makers.

VALVE'S LIFE ABOUT TO GET A LOT EASIER

alves open. Valves close. Nothing too complex about that. But a Florida inventor, Robert A. Jaeger, is showing even the lowly valve can be improved. Opening one to let flow requires a strong force, because the plug has to be ed upstream into the fluid it's holding back. Jaeger has loped a valve that opens and closes easily, even under in- e pressures such as in hydraulic tools.

Jaeger's valve, the circular plug fits snugly into a dough- inside the pipe. As the plug pushes upstream, the dough- nut around it slides downstream, creating a gap that the fluid flows through. To close the valve, the action reverses. The two always move in opposite directions, because they are on the opposite sides of a rotating, toothed gear. Turning the gear opens or closes the valve.

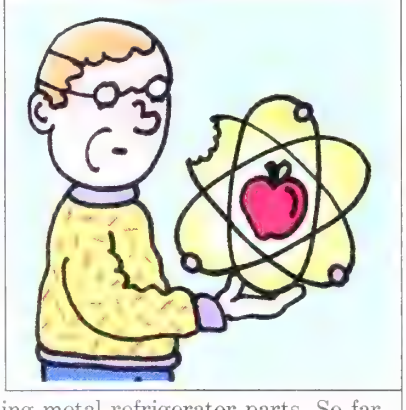
It takes little force to turn the gear, says Jaeger, because the forces on it are already in balance. The valve got favorable notice recently in three industry publications—*Designfax*, *Hydraulics & Pneumatics*, and *Design News*. Jaeger, who lives in Brandon, Fla., has applied for a patent. "It's mind-boggling that this wasn't invented 100 years ago," he says.

A LASER'S TOUCH MAY HELP GRAFT NEW SKIN ON BURN VICTIMS

Surgeons traditionally rely on eyesight and a scalpel to treat burn patients. But the human eye has a tough time telling how deep and serious burns are, because visible light can't penetrate the skin. Sandia National Laboratories and Wellman Laboratories of Photomedicine at Massachusetts General Hospital in Boston are working on a solution: a high-power laser guided by sensors.

The system will use invisible light to sense when the laser has removed enough tissue for a skin graft to take hold. Wellman has devised a sensor that is being tested for evaluating burn patients. Sandia's task is to make the sensor easy to use and make, and then hook it up to guide the laser. Doctors will inject burned tissue with fluorescent dye. Since the blood vessels are destroyed in dead tissues, the dye will be carried only into sections that remain healthy. Sandia will use computer models to determine the ideal power and spot size of the laser. Sandia's project leader, Ned Godshall, estimates that animal tests using the integrated system will be under way in two years.

A DOSE OF ANIONS A DAY KEEPS THE FUNGI AWAY



Are bacteria and fungi in the habit of setting up shop on produce and leftovers in your fridge? Mitsubishi Electric Corp. intends to guard food with low concentrations of oxygen anions (negatively charged atoms). Unlike ozone, which is sometimes used in large refrigerators, these anions will prevent microorganisms from reproducing, but without discoloring food or corroding metal refrigerator parts. So far, Mitsubishi has tested strawberries at 45F and 90% humidity and found that they remain mold-free if anions are used at one-billionth of a part per million. Even at a 100 million times higher concentration, ozone achieves the same effect for only seven days.

Inside a sealed tube, an electric charge ionizes the air. Then, a catalyst inside the tube separates the resulting ozone, thereby leaving the anions behind. The company says that an anion generator smaller than a lemon will protect a typical household refrigerator. Mitsubishi is also looking into using anions in air-conditioning systems to prevent the growth of disease-causing bacteria.

THE GLOBAL INVESTOR

WORLD MARKETS ARE WHERE THE ACTION IS—AND NOW IT'S EASY TO PLAY

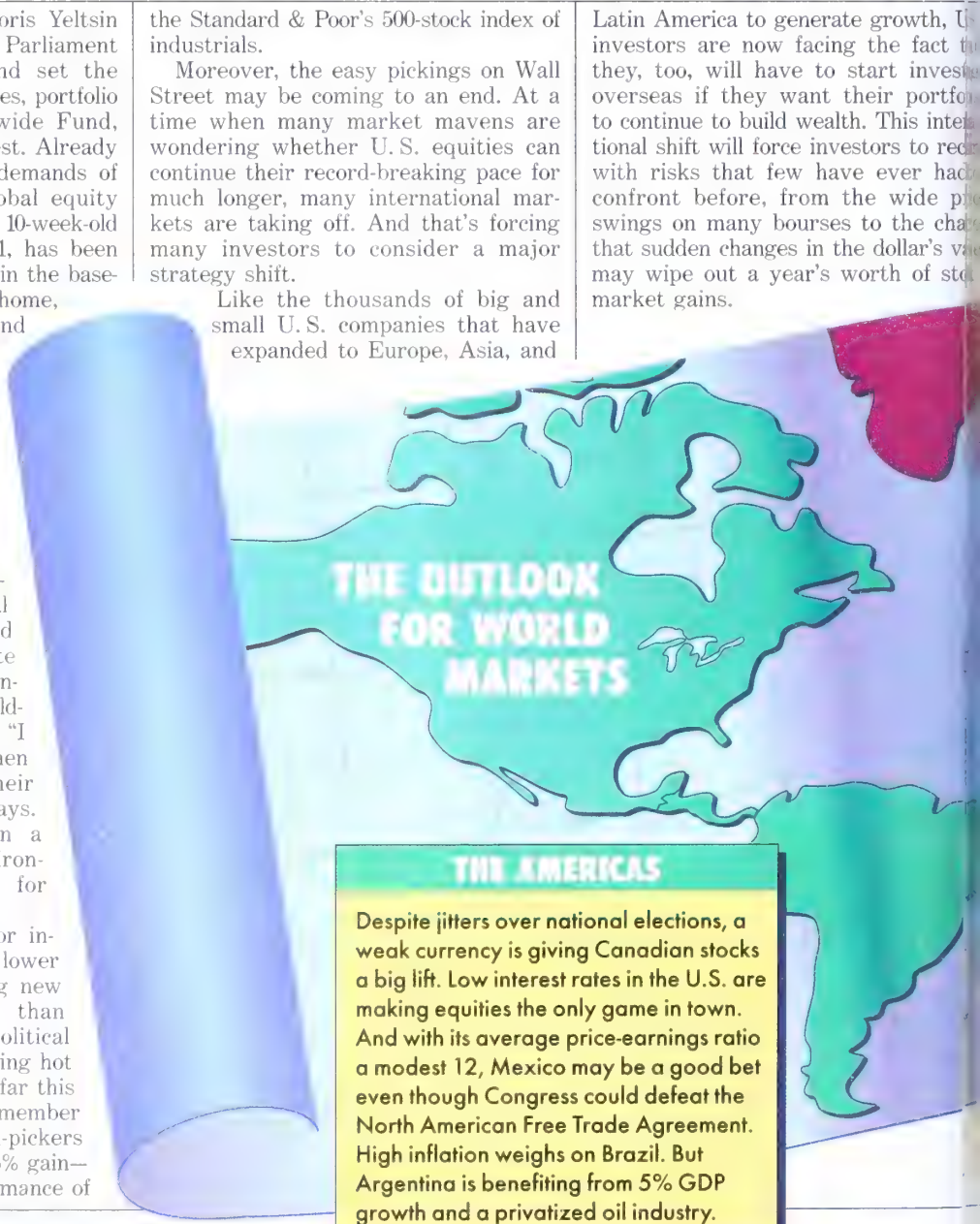
Ever since President Boris Yeltsin dissolved the Russian Parliament in late September and set the world on edge, Helen F. Hayes, portfolio manager for Janus Worldwide Fund, hasn't been getting much rest. Already weary from balancing the demands of her fund's $600 million global equity portfolio against those of her 10-week-old daughter, Rachel, Hayes, 31, has been staying up night after night in the basement office of her Denver home, phoning brokers in Asia and Europe while keeping "one eye glued to CNN and the other on stock prices" flashing across a desktop monitor.

Hayes's nighttime vigils are hardly surprising. Her fund has big stakes in German and Austrian banks and manufacturers that are especially vulnerable to political tensions only a few hundred miles to the east. But despite Yeltsin's woes, Hayes is continuing to build her overseas holdings as rapidly as she can. "I felt much more sanguine when the armed forces threw their support behind him," she says. "Most of the world is in a declining interest-rate environment, and that's positive for stocks."

DOUBLE YOUR PLEASURE. For investors, the combination of lower interest rates and emerging new markets has been more than enough to overcome the political angst and civil wars bedeviling hot spots around the world. So far this year, Janus Worldwide's 14-member crew of international stock-pickers has served up a healthy 13.5% gain—better than twice the performance of the Standard & Poor's 500-stock index of industrials.

Moreover, the easy pickings on Wall Street may be coming to an end. At a time when many market mavens are wondering whether U. S. equities can continue their record-breaking pace for much longer, many international markets are taking off. And that's forcing many investors to consider a major strategy shift.

Like the thousands of big and small U. S. companies that have expanded to Europe, Asia, and Latin America to generate growth, U. investors are now facing the fact t they, too, will have to start inves overseas if they want their portfo to continue to build wealth. This inte tional shift will force investors to rec with risks that few have ever had confront before, from the wide p swings on many bourses to the cha that sudden changes in the dollar's v may wipe out a year's worth of st market gains.



history is a guide, the extra trouble bring superior returns. Indeed, with U. S. now accounting for less than of the world equity market, inves- risk cutting themselves off from e of the hottest prospects if they t think and act globally. As Nicholas :t, president of the Scudder Interna- al Fund, puts it: "Why not buy the companies in the world?"

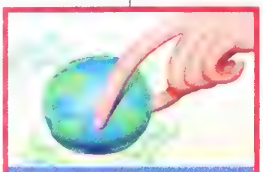
he global investor is raking it in this . Emerging markets are delivering ble- and even triple-digit gains, re- ing the prospects for dramatic in- ses in corporate profits as economic rms sweep the developing world. across industrial economies, hopes an end to the world recession are ng bourses from Hong Kong to ıkfurt one of their best years ever.

ıN WATCH. Next year looks pretty too. Michael Hughes, chief strategist London's Barclays de Zoete Wedd , thinks European stock markets show a 16% return over the coming nonths, vs. only 7% for the U. S.

Even recession-bound Japan may offer potential for superior growth. While the Nikkei stock average has been stuck around 20,000 for months, and "bearishness on the economy is growing day by day," Merrill Lynch & Co. Tokyo strategist Jeff Bahrenburg thinks that Japanese manufacturers' profits will surge by 50% next year as tough corporate restructuring and record-low 1.75% interest rates ignite a recovery.

Amid such forecasts, U. S. pension-fund managers poured $18 billion into overseas markets in the first half of 1993 alone, according to InterSec Research Corp. in Stamford, Conn. That's nearly as much as they invested abroad in all of 1992.

Individual investors are taking similar steps. Only a few years ago, going global might have required immense amounts of legwork. But a swift outpouring of mutual funds investing in single countries, large regions, and multinational industries—an increasing number of them in the developing world—is making the global investor's life easier. Consumers have been moving more than $1 billion a week into such funds since midsummer



GLOBAL U.S. MUTUAL FUNDS TAKE IN $1 BILLION A WEEK

alone. They now have $100 billion in funds that invest outside the U. S., up from $61 billion a year ago.

So intense is interest in international equities that even mutual funds that appear to be all-American are gaining a worldwide flavor. Fidelity Investments Executive Vice-President Neal Litvack notes that the group's Magellan Fund, Puritan Fund, and Contrafund, which are largely domestically oriented "have all started buying international securities aggressively" as a hedge against a U. S. market decline. Today, 8% of Fidelity's $200 billion in mutual-fund assets is invested abroad, against less than 5% only a year ago.

Still, U. S. investors have a long way to go before they can proclaim themselves global players. Of the roughly $500 billion in customers' accounts at Merrill Lynch, for example, only 5%, or $25 billion, is now invested abroad. And that's probably costing Merrill's customers big bucks. According to a new study by economists

EUROPE

es for lower interest rates and nd to recession are lifting rses from Britain to Berlin even gh corporate earnings may ain sluggish for a while. Best include France, Spain, and den. But Germany and Austria d face rough moments if ian political tensions spread.

EX-SOVIET BLOC

Economic and political shakeout in the former Soviet bloc complicates investing in local bourses. So pros advise sticking to German and Austrian construction and building-supply companies making a bundle helping the East rebuild.

CA AND MIDDLE EAST

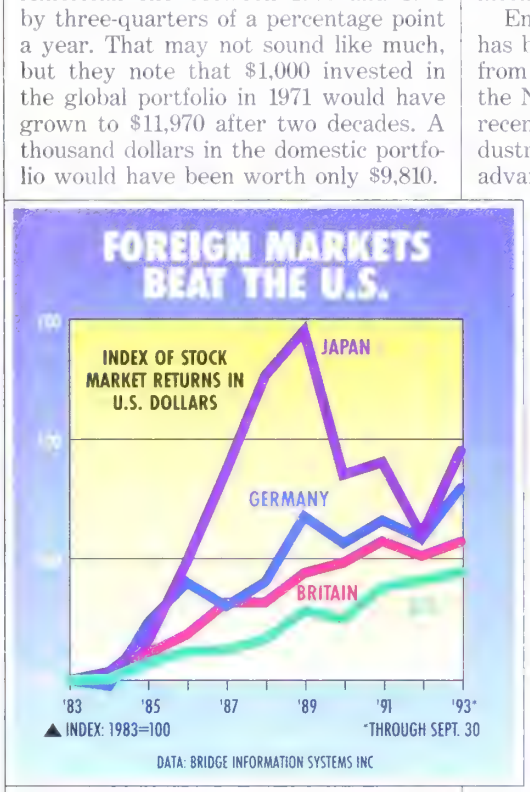
ing Mideast peace prospects ending Israel's two-year bull and bringing Turkey's hot stock to a boil. The fall of economic ns on South Africa could also Johannesburg after a 12% fall prices since July.

ASIA

Japan's recession is scaring off investors, but some see profits and stocks rebounding sharply in the coming year. Meanwhile, cash-rich Hong Kong is shrugging off Beijing's efforts to cool China's growth. A big phone-company privatization is renewing interest in Singapore, and the bull market in fast-growing Indonesia shows little sign of cooling down.

ILLUSTRATION BY BLUE MAYER. MAP BY ROB DOYLE, BW

Linda L. Tesar and Ingrid M. Werner of the University of California at Santa Barbara, a global portfolio of stocks would have outperformed a strictly American one between 1970 and 1991 by three-quarters of a percentage point a year. That may not sound like much, but they note that $1,000 invested in the global portfolio in 1971 would have grown to $11,970 after two decades. A thousand dollars in the domestic portfolio would have been worth only $9,810.



Promoting such potential gains, Merrill is now attempting to persuade customers to boost their overseas assets to 7.5% of their portfolios by yearend—and to 20% by the end of the decade. "Look at the world," says Merrill Lynch Asset Management President Arthur Zeikel. "It's a growth business." In fact, money mavens such as Ronald W. Rogé, a financial planner based in Centereach, N.Y., now regularly counsel clients to put even more overseas—as much as 30%, generally through mutual funds that invest abroad.

TIME-SAVER. Global stock-picking is also on the rise among individuals. Many big U.S. brokers will now handle individuals' orders for shares on bourses overseas, usually in lots of $25,000 and up. But investors can also go global on U.S. exchanges, too. More than 1,000 companies—from massive British Petroleum Co. to tiny Belize Holdings Inc., the dominant banking group in that Central American nation—now list shares and American depositary receipts (ADRs). Unlike issues traded abroad, these U.S.-listed shares and ADRs, which are certificates that show ownership of equities issued overseas, pay dividends in dollars, saving investors the trouble of converting foreign currencies into dollars every quarter. Dividends on ADRs and global mutual funds may be reduced by foreign withholding taxes. But U.S. investors receive a full credit for these foreign levies when they file their annual income-tax returns.

Enthusiasm for emerging-market ADRs has been sizzling, with billions in issues from Latin America and China flooding the New York Stock Exchange alone in recent months. But companies in the industrial world are also rushing to take advantage of American investors' global appetite. Since listing its ADRs on the NYSE in June, Espírito Santo Financial Holding, the Luxembourg-based owner of Portugal's newly privatized Banco Espírito Santo, has seen U.S. investors—most of them individuals—gobble up 30% of its stock. In fact, ADRs for British pharmaceutical maker Glaxo Holdings PLC became the New York Stock Exchange's most active issue in 1992, the first overseas listing to win such status.

NEW YORK, NEW YORK. But now, Glaxo is getting hefty competition. Trading in Teléfonos de México has soared since the state phone monopoly was listed on the NYSE in 1991. Over the past summer, Argentina's newly privatized oil company, YPF, joined Telmex by selling $2 billion worth of ADRs. A host of other European and Asian giants are getting ready to list ADRs, too. On Oct. 5, auto and aerospace group Daimler Benz will list ADRs on the NYSE, the first German corporation ever to do so. And with Germany, France, Singapore, and other countries planning multibillion-dollar privatizations of everything from banks to phone groups, even more big regional names are sure to seek U.S. investors' cash.

There's no shortage of major investors willing to take them up on their offers. In recent weeks, for example, Bruce B. Bee, a Denver-based small-company specialist who manages money for pension funds and wealthy individuals, has been snapping up shares of Adelsten, a Norwegian clothing chain. Boasting a 5% yield, a 25% return on equity, and a 400% jump in profits over the past five years, Adelsten still trades at a price-earnings ratio of only 9.5. By contrast, Bee notes, trendy U.S. apparel retailer The Gap Inc. fetches a lofty 22 p-e and has a yield of only 1.3%. Jean-Marie Eveillard, manager of the $1 billion SoGen International Fund, has been buying Randstad Holding, a temporary-employment agency he calls "the Manpower of the Netherlands." Despite Europe's recession, Randstad has managed to earn hefty profits and a 30% return on equity. Yet it trades at a modest p-e of 12—half

WHERE THE GU ARE GOING

Not too long ago, you h be a frenzied globetrotte find the world's best stoc and bonds. Today, armie experts are happy to do for you. Here are some the pros' top picks:

EMILIO BASSINI

BEA ASSOCIATES

Mexican born, runs closed-end country funds from Israel to South America. Likes utilities and consumer stocks. "In the next five years, we're going to have more money in Brazil tha anyplace."

JOHN HICKLING

FIDELITY OVERSEAS F

Made big on yen bor over the su mer and n thinks Toky stocks are "a very go fourth quarter." But high interes rates may produce European e ings disappointments.

MICHAEL HOWELL

BARING SECURITIES

Watches global cash flows for investing clues. With "European monetary policy easing significantly," likes Germany, Austria, and Spain. Also high on Argentina. Persor favorite: Turkey Fund.

HELEN HAYES

DWIDE

lectic
list, likes
an Coke

nerican
ages for
price-earnings ratio and
any's Daimler Benz for its
essive cost cuts."

MARK TURNER

PUTNAM GLOBAL GOVERNMENTAL INCOME TRUST

International bond whiz. "Deflationary forces are pretty strong" worldwide. Biggest gs in Japan, where inflation-ed yields exceed 5%. Also igh on Scandinavia.

PETER SOO

CK ASIA TY FUND

na bull
nvests
h Hong
Despite
's eco-
clamp-
"China
ns the center of it all."
ing wary of investments in In-
ia and Malaysia.

JEAN-MARIE EVEILLARD

SOGEN INTERNATIONAL FUND

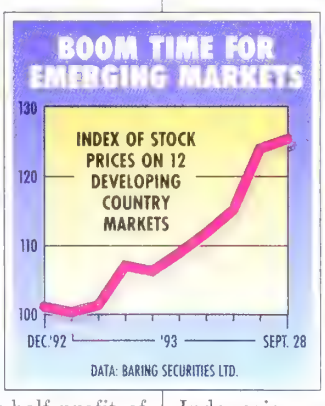
Long-term stockholder, abhors "flavor of the month" buying. Shunning U.S., Japan, Hong in favor of "big and de-d" European cyclicals. Thinks may be an emerging market.

of Manpower Inc.'s. Global investing can also pay off handsomely because it offers a chance to diversify a portfolio among numerous markets. That decreases the chance that your holdings will be devastated if one or two bourses take a plunge.

The Japanese stock market's three-year-long collapse is perhaps the best example of the way international bourses frequently follow their own destiny. Although Tokyo once ranked as the world's largest stock market, worth $4.3 trillion, the bursting of Japan's speculative bubble failed to sandbag other Asian bourses or deter Wall Street from racing to record highs. Then again, that should hardly come as a surprise. According to International Monetary Fund economists Morris Goldstein and Michael Mussa, global equity markets have shown "no significant increase" in correlation over the past 20 years. In other words, despite a tremendous increase in global financial integration, what happens on one stock market still doesn't have a major impact on another.

That lack of correlation is even more apparent in developing economies. Baring Securities Ltd. Vice-President Stephen J. Batzell notes that some emerging markets actually tend to move in opposite directions from each other. Spreading your portfolio among several markets, some of which may be moving up while others are falling, thus acts as "a shock absorber," says Scudder's Bratt. "I don't care how global a U.S. company is," he adds. "If the market goes down the tubes, the good will get flushed away with the bad."

LOST IN TRANSLATION. To be sure, while global diversification can help insulate one's portfolio from risk, investing abroad can produce its share of surprises. Accounting methods, for example, can differ sharply from country to country, making comparisons of p-e's and book values an exercise in frustration.



Take Daimler Benz. Using German standards, it recently reported a first-half profit of $105 million. But that profit turned into a $593 million loss when the figures were restated along U.S. lines. Why the difference? Daimler agreed not to use "hidden reserves"—undisclosed accounts that German companies can draw on to bolster earnings—as the price of listing its ADRs in the U.S.

Even more important are fluctuations in the value of the dollar. The currency's sharp fall against the yen this year has created a windfall for some U.S. investors, turning a 24% gain in Japanese stocks into a 46% increase when the gains are figured in greenbacks. But the British pound's 1992 devaluation turned a 25% gain for the London Stock Exchange—in sterling—into a modest decline when translated into dollars.

Many currency experts believe that the dollar will strengthen against European currencies as the U.S. economy gains momentum. So quite a few mutual-fund managers are seeking protection against losses on their holdings in Europe by selling the German mark and French franc. But some money managers—especially those who hold stocks for three years or more—prefer not to hedge at all.

They argue that currency swings eventually cancel themselves out. What's more, they insist, hedging can be costly and, by reducing the impact of changing foreign-currency values, can actually reduce the diversification that long-term investors seek by looking abroad. "Longer term, the impact of currencies is rather small," acknowledges Anthony W. Regan, senior managing director at Boston's Putnam Investments and a confirmed foreign exchange hedger. "But shorter term, the impact can be huge."

On top of currency moves, overseas markets—especially ones in developing countries—sometimes suffer huge mood swings that can daunt even the most stout-hearted investor. Take Istanbul. Buoyed by 10% real gross domestic product growth, hopes for a European recovery, and the privatization plans of Prime Minister Tansu Çiller, Turkey's bourse is up 180% this year. But it didn't get there without some nasty bumps along the way. After soaring 140% in the first six months of the year, Turkey's exchange plunged 20% in the following six weeks—only to do an about-face and charge to a record high. But for thrills and chills, few markets can top Jakarta. After reaching a record high in 1990, the Indonesian market plummeted 60% as rising interest rates sent Japanese investors fleeing. But this year, with rates back down and GDP growth expected to be 7%, Jakarta has become one of overseas fund managers' favorite spots. As Bacelius Ruru, chairman of Indonesia's Capital Market Supervisory Agency, happily notes: "People are coming back."

Because few Asian issues are listed on U.S. exchanges, many investment advisers suggest sticking to mutual funds

■ **STEELMAKING AT A MEXICALI MINIMILL: GRUPO SIMEC'S SHARES TRADE ON THE AMEX**

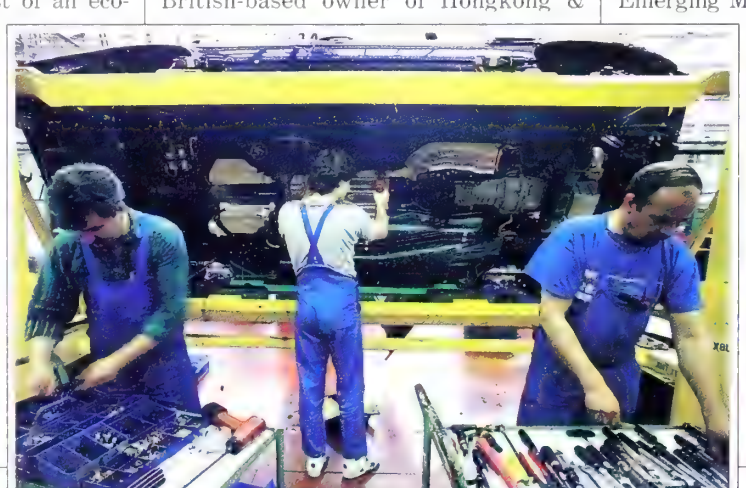
as the most efficient way to invest in the region's markets. Financial planner Rogé, for one, recommends T. Rowe Price New Asia Fund. Indeed, Asia funds are becoming Wall Street's hottest commodity. That's largely because many Southeast Asian countries, despite the recession in Japan and the West, are likely to grow by 10% this year.

Even China, in the midst of an economic cooldown launched by People's Bank of China Governor Zhu Rongji, is likely to expand by 13%. "That's very healthy—and it's fantastic compared with anywhere else," says Peter Soo, Hong Kong-based director of fund management for AIG Investment Corp. (Asia) and chief stock-picker for the Van Eck Asia Dynasty Fund.

To capitalize on China's growth, Boston money manager Thomas M. Claflin II has put some of his deep-pocketed customers' cash into Shanghai Tire & Rubber, an ultramodern tire producer "that's making them as fast as they can." Ek Chor China Motorcycle and Tsingtao Brewing, two other Chinese companies that have gone public recently, have attracted plenty of buyers as well. But AIG's Soo prefers to focus on well-established Hong Kong names that are doing business in China and across Asia. His favorites: Luks Industrial, a television maker and real estate developer that has recently expanded into producing cement and plywood in Vietnam, and HSBC Holdings PLC, the British-based owner of Hongkong & Shanghai Banking Corp. Benefiting v the wide spread between Hong Kg 1.5% savings-account yields and the it charges on loans, HSBC's earning soaring. Yet, Soo notes, it still t at a p-e of only 8.5, vs. 10 for Ame banking giant J. P. Morgan & Co.

SEXY YET SAFE. While booming growh heating up the market for Asian re al funds, many investors prefe spread their risks through mutual that buy stocks in a wide range of growing emerging markets. Inve in London can even buy into a dev ing-markets index fund. Dubbed Emerging Markets Index Tracker it's composed of the biggest stocks on a markets from Gree Brazil to Thailand. Tracker up 21% sinc debut in May, a si fund may open he coming months, says ing's Batzell.

But most investor



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likely to prefer funds whose managers roam the world in search of obscure emerging-market stocks. One of them, Templeton Developing Markets Fund, is up 44% this year. Merrill Lynch's Developing Capital Markets Fund has gained 30%. Where has the Merrill fund's manager, Grace Pineda, been this year? "Brazil, Morocco, Portugal, France, Argentina, Peru, Ecuador, Mexico, the Philippines, Turkey, Luxembourg, London, Madrid," she says, adding, "There's a couple more, but I forget which."

Lately, Pineda's travels have led her to Petersburg Long Distance, a Toronto-based company that has won the right to rewire the phone system of Russia's former imperial capital. Pineda also has 10% of the fund's assets in Mexico, which she believes is the world's emerging bargain center. The Bolsa Mexicanos de Valores has been buffeted frequently this year by fears that the U.S. Congress may kill the North American Free Trade Agreement. As a result, it's up barely 5% for 1993. But "even without NAFTA, Mexico can grow in the high single digits over the next 10 years," Pineda contends.

■ BEER DRINKERS IN HONG KONG: CHINA'S TSINGTAO HAS GONE PUBLIC

"LEAN AND MEAN." In fact, Mexico, once a global outcast for its crippling foreign debt and dismal economic record, has become a mainstay of many international portfolios. As President Carlos Salinas de Gortari's sweeping economic reforms have taken hold, dozens of companies, including Grupo Simec, which operates a highly efficient steel minimill, have gone public on the U.S. and Mexican markets. Simec ADRs are up 18% since they were listed in July. But many investors gravitate first to Telmex. At 51, its ADRs are trading at only 10 times earnings—about half that of one of its main foreign shareholders, Southwestern Bell Corp.

Telmex is hardly the only Latin issue catching the eye of money mavens. Patti A. Satterthwaite, manager of Fidelity's Latin America Fund, likes Electricidad de Caracas, the power company serving Venezuela's capital, as well as Banco Latinamericano de Exportaciones, a Panama-based trade-finance lender. She is also partial to Brazil, where "companies have become very lean and mean" to cope with years of economic and political stress. Among her favorites: Banco Bradesco, a big lender that boasts "an amazing level of automation."

If emerging markets are capturing much of the headlines these days, it's still the major markets of the industrial world that are garnering most of investors' cash. Anton Fink, a managing director at Bank Gebrüd. Gutmann in Vienna, is using Western European markets to play the reconstruction of the formerly communist East. Austria's Maculan, for example, has nailed down contracts—and German funding—to apartments for Russian soldiers r ing home from Poland and Ger But many other fund managers better-known names. Denver r manager Bee, for one, likes Skis F nol, the big French manufacturer gear that has seen its profits dou ter shifting production to low plants in Spain and Italy. And Worldwide's Hayes is stocking Switzerland's SMH, the maker of Swatch watches and pricier timep Hyde expects SMH's profits to soa next year, yet it's selling for j times earnings.

Growth—that's what global inv is all about. From Chinese beer gentine oil, an unprecedented ar companies with above-average ea prospects is bec investors. In th tile world eco some of these i ments may wel sleepless nigh newcomers—an pros, too. But all part of the global investing egy: Find the companies, no where they are.

By William G in New York, Larry Holyoke kyo, John Ross Rome, and Bill ski in Paris

THE BEST EMERGING MARKET FUNDS

TOTAL ANNUAL RETURN

1993*	
TURKISH INVESTMENT	82.6%
BRAZILIAN EQUITY	52.1
ASIA PACIFIC	46.8
TEMPLETON EMERGING MARKETS	45.7
MALAYSIA	45.5
THREE YEARS*	
MEXICO	40.2
CHILE	37.2
TEMPLETON EMERGING MARKETS	36.5
LATIN AMERICA INVESTMENT	36.4
BRAZIL	23.1

*Through Sept. 1. Includes appreciation plus reinvested dividends and capital gains

DATA: MORNINGSTAR INC.

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erformance shows the funds' history and does not guarantee future . The figures include changes in share price and reinvestment of nds and capital gains, which will fluctuate so that shares, when ned, may be worth more or less than their original cost. The figures e the deduction of 12b-1 fees beginning in June, 1990. Source: Analytical Services

WITH THIS TABLE, YOU CAN EASILY COMPARE US WITH OTHER FUNDS.

(For the period ending June 30, 1993)

AVERAGE ANNUAL TOTAL RETURNS

	100 FUND	101 FUND
1 YR	35.5 %	17.5 %
3 YRS.	25.9 %	18.5 %
5 YRS.	25.0 %	15.1 %
10 YRS.	13.3 %	11.5 %
15 YRS.	16.6 %	13.0 %
From 9/30/74	15.9 %	14.1 %

CUMULATIVE TOTAL RETURNS

	100 FUND	101 FUND
1 YR	35.5 %	17.5 %
3 YRS.	99.3 %	66.5 %
5 YRS.	204.7 %	102.3 %
10 YRS	247.0 %	196.9 %
15 YRS	901.0 %	529.1 %
From 9/30/74	1,482.9 %	1,077.9 %

THE BERGER FUNDS

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MUTUAL FUNDS ARE FAT —AND INVESTORS ARE HAPPY

A solid third quarter will keep the billions rolling in, and assets could top $2 trillion by yearend

The odds are that most investors did not spend their summer traveling abroad. But they made a lot of money if their dollars took the trip. International equity funds outpaced funds that invest at home during the third quarter, continuing a trend that has been building throughout 1993. Some of the summer's brightest stars were the relatively new emerging-markets mutual funds, which venture afar into nascent capital markets, such as Brazil, Indonesia, and Turkey.

International bond funds distinguished themselves as well, rising to the top against stiff competition from Treasury bond funds, which benefited from the dramatic drop in long-term interest rates to below 6%. One of the third quarter's best bond funds was the Fidelity New Markets Income Fund, up nearly 11%: The emerging markets debt fund opened May 4 and already has $145 million.

Not that overseas investors had the only fun. Spurred by low interest rates, every major U. S. stock market index hit a new high in the third quarter. The Standard & Poor's 500-stock index, the benchmark by which most domestic stock funds are measured, was up nearly 3% including dividends (through Sept. 27). The average U. S. equity fund beat that mark handily, with a 5.2% total return (appreciation plus reinvested dividends and capital gains), according to Morningstar Inc., the mutual-fund data company that compiles returns for BUSINESS WEEK.

Many categories of domestic funds beat the averages. Financial and utility funds took their strength from falling interest rates. Technology, small-company, and maximum-growth funds be blue chips based on the strong p mance of the smaller-company emerging-growth stocks. The NA Over-the-Counter Composite shot u In contrast, the Dow industrials, t they were up nearly 4% by the e August, pulled back in Septemb close at 3567.7 on Sept. 27, up only

Takeovers in the telecommunic and entertainment industries also h give some funds a big lift. Gabelli Fund, up 16.26%, has 24% of its in Paramount Communications, which is being fought over by V Inc. and QVC Network Inc. "Le funds, Invesco Strategic Leisure a delity Select Leisure, soared on mergers and also got help from stocks. Deborah Wheeler, who ru Fidelity Leisure fund, is especially

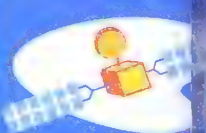
International funds—especially those that invest in emerging markets—outran the pack. Gains at home were good, too, with the best results coming from funds with small-growth companies.

LATIN AMERICA
South of the border, they are reining in inflation, privatizing state-owned industries, and opening their economies. That translates into higher stock prices.

THE BEST RETURNS

PROGRESSIVE AGGRESSIVE GROWTH	24.58%	FIDELITY SELECT COMPUTERS	14.33%
INVESCO STRATEGIC LEISURE	18.87	FIDELITY SELECT BROKERAGE & INVESTMT.	14.14
SMITH BARNEY SHEARSON SPEC. EQUITIES B	18.61	PUTNAM OTC EMERGING GROWTH	14.11
DEAN WITTER DEVELOPING GROWTH SECS.	17.90	PUTNAM NEW OPPORTUNITIES A	14.07
TWENTIETH CENTURY GIFTRUST INVESTORS	17.52	G.T. GLOBAL TELECOMMUNICATIONS A	13.99
FIDELITY SELECT HOME FINANCE	17.45	UNITED INTERNATIONAL GROWTH	13.97
PBHG GROWTH	17.28	EVERGREEN GLOBAL REAL ESTATE EQUITY	13.91
GAM GLOBAL	17.08	DELAWARE TREND	13.85
KEYSTONE CUSTODIAN S-4	16.96	PUTNAM NEW OPPORTUNITIES B	13.80
SELIGMAN COMMUNICATIONS/INFORMATION A	16.82	ROBERTSON STEPHENS EMERGING GROWTH	13.66
GAM INTERNATIONAL	16.60	T. ROWE PRICE SCIENCE & TECHNOLOGY	13.60
GABELLI VALUE	16.26	QUANTITATIVE BOSTON NUMERIC ORDINARY	13.40
THOMSON OPPORTUNITY B	15.90	SMITH BARNEY SHEARSON AGGR. GROWTH A	13.33
FIDELITY SELECT BROADCAST & MEDIA	15.82	T. ROWE PRICE NEW ASIA	13.27
INVESCO EMERGING GROWTH	15.82	KEMPER SMALL CAPITALIZATION EQUITY	13.12
FIDELITY SELECT ELECTRONICS	15.63	SMITH BARNEY INTERNATIONAL EQUITY A	13.09
SCUDDER LATIN AMERICA	15.56	MORGAN STANLEY INSTL. EMERGING MARKETS	12.92
BRANDYWINE	15.16	GOVETT SMALLER COMPANIES	12.89
MONTGOMERY GLOBAL COMMUNICATIONS	14.94	AIM AGGRESSIVE GROWTH	12.85
FIDELITY SELECT LEISURE	14.85	MAIN STREET INCOME & GROWTH	12.84
RSI RETIREMENT TRUST EMERG. GRTH. EQTY.	14.85	FORTIS ADVANTAGE CAPITAL APPRECIATION	12.82
OPPENHEIMER TIME	14.71	MONTGOMERY SMALL CAP	12.73
MERRILL LYNCH TECHNOLOGY A	14.65	MAS EMERGING GROWTH	12.69
PRUDENTIAL GLOBAL GENESIS B	14.64	SUNAMERICA AGGRESSIVE GROWTH	12.63
FIDELITY LATIN AMERICA	14.49	STEINROE CAPITAL OPPORTUNITIES	12.55

Appreciation plus reinvested dividends and capital gains, July 1 through Sept. 27, 1993



TELECOMMUNICATIO
Dealmaking sparked big returns for many telecommunications stocks. They are also benefiting from the multimedia boom.

LEISURE
Entertainment companies, specialty retailers and casinos —both floating and land-based—helped make "leisure" funds shine

n radio broadcasters, which
ow allowed to buy competi-
in the same market. That
hem combine operations and
advertising rates. Among
top holdings are Infinity
lcasting and even CBS Inc., a
player in radio.
ıong the laggards, health-
funds managed to eke out a
gain. After soaring earlier
ear, natural-resources funds
ed as oil prices tumbled.
us-metals funds, the sprint-
f the first half dropped
%. The funds, which invest
y in gold miners, peaked
with the price of gold. Gold
un up as high as $406 an
on fears of a resurgence in
on but now sells at $355 an ounce.
ile the gold group holds a com-
ing lead on performance year-to-
the prospects for another big rally
imming. Inflation is tame not only
e U. S. but also around the world.
China, a big source of gold de-
, is reining in its inflation rate. Po-
crises don't seem to give gold
of a boost these days, either. The
shot up $9 an ounce the day the
down began between President
Yeltsin and the Russian parlia-
, but the gains have evaporated.
leed, investors ought to be wary of
olatility of the gold funds. Lexing-
trategic Investments, which invests
n South African gold shares, is far

SOME BIG RETURNS FOR THE BIG FUNDS

	TOTAL RETURN*	ASSETS** (BILLIONS)
FIDELITY MAGELLAN	8.14%	$29.8
INVESTMENT COMPANY OF AMERICA	3.90	18.5
WASHINGTON MUTUAL INVESTORS	3.99	12.3
VANGUARD/WINDSOR	7.29	10.6
INCOME FUND OF AMERICA	3.59	9.5
JANUS	3.72	8.7
FIDELITY PURITAN	3.55	8.2
VANGUARD INDEX 500	3.16	7.9
TWENTIETH CENTURY ULTRA INVESTORS	11.40	7.5
VANGUARD/WELLINGTON	3.06	7.4

*APPRECIATION PLUS REINVESTED DIVIDENDS AND CAPITAL-GAINS DISTRIBUTIONS, JULY 1-SEPT. 27, 1993
**AS OF JULY 31
DATA: MORNINGSTAR INC.

and away the year's hottest performer—up 164% through Sept. 27—even though the fund is among the worst for the quarter, down 11.74%. But funds like Lexington are not for the faint of heart: At its peak on July 31, the fund was up 249%, but investors who bought at that time are 24% in the red. Even President Clinton's request to lift sanctions on South Africa failed to budge Lexington Strategic or other South African funds very much.

"NO DOWNSIDE." All told, the third-quarter returns should keep investors happy and their passion for mutual funds intact. According to the Investment Company Institute, equity mutual funds took in a record $12.1 billion during August, bringing the 1993 total to $82.4 billion. Bond funds, which have pulled in $12.7 billion for August and $86.5 billion so far this year, are lapping up dollars from investors seeking better returns than they can get from the bank or from money-market funds. Fund assets are likely to top $2 trillion by yearend.

Fund watchers say a large chunk of the new money in equity funds is going abroad. "About 75% of the cash flow into equity funds is going into international funds," says Steven Norwitz, vice-president of T. Rowe Price Associates, which runs six international funds totaling $5.5 billion. Robert Adler, whose AMG Data Services tracks cash flows industrywide, says international equity funds have taken in $1 billion a week for the last four weeks, up from about $200 million a week in the spring.

While international funds have been around for years, many fund companies are bringing out more specialized vehicles, such as emerging-markets funds, to exploit new opportunities. Look at the Scudder Latin America Fund, up 15.56% for the quarter. William Truscott, co-manager of the fund, gives a lot of credit for its performance to its investments in Brazil—one of the Third World's perennial economic basket cases. "Assets got so cheap that there was no downside," he says. Moreover, he notes,

THE WORST RETURNS

MFS GOLD & NATURAL RESOURCES B	−14.89%	UNITED GOLD & GOVERNMENT	−7.81%
INVESCO STRATEGIC GOLD	−14.71	BLANCHARD PRECIOUS METALS	−7.70
LEXINGTON GOLDFUND	−13.79	FIDELITY SELECT PRECIOUS METALS/MIN.	−7.08
IDS PRECIOUS METALS	−13.56	FIDELITY CANADA	−6.67
USAA INVESTMENT GOLD	−13.46	EXCEL VALUE	−5.49
BENHAM GOLD EQUITIES INDEX	−13.13	METLIFE-STATE STREET GLOBAL ENERGY A	−5.40
PIONEER GOLD SHARES	−12.73	UNITED SERVICES WORLD GOLD	−4.73
SMITH BARNEY SHEARSON PREC METALS B	−12.68	OAK HALL EQUITY	−4.62
UNITED SERVICES GOLD SHARES	−12.45	EATON VANCE NATURAL RESOURCES	−4.49
MONITREND GOLD	−12.43	ROBERTSON STEPHENS CONTRARIAN	−4.41
DEAN WITTER PREC. METALS AND MINERALS	−12.15	FIDELITY SELECT PAPER & FOREST PROD.	−4.37
BULL & BEAR GOLD INVESTORS	−12.07	ALLIANCE GLOBAL CANADIAN	−4.04
VANGUARD SPECIALIZED GOLD/PREC. MTLS.	−11.87	SUNAMERICA TOTAL RETURN	−3.57
LEXINGTON STRATEGIC INVESTMENTS	−11.74	DREYFUS CAPITAL VALUE A (PREMIER)	−3.54
THOMSON PREC. METALS & NAT. RES. B	−10.84	MATHERS	−3.24
VAN ECK GOLD/RESOURCES	−10.81	EXCEL MIDAS GOLD SHARES	−3.01
VAN ECK INTERNATIONAL INVESTORS	−10.77	FIDELITY SELECT ENERGY SERVICE	−3.00
KEYSTONE PRECIOUS METALS HOLDINGS	−10.33	YACKTMAN	−2.92
FRANKLIN GOLD	−10.27	COMPOSITE NORTHWEST 50	−2.78
RUSHMORE PRECIOUS METALS INDEX PLUS	−9.76	REMBRANDT GROWTH TRUST CLASS	−2.65
OPPENHEIMER GOLD & SPECIAL MINERALS	−9.42	FONTAINE CAPITAL APPRECIATION	−2.55
EQUITY STRATEGIES	−9.35	PRUDENTIAL GLOBAL NATURAL RESOURCES B	−2.52
FIDELITY SELECT AMERICAN GOLD	−8.49	INVESCO STRATEGIC ENERGY	−2.47
SCUDDER GOLD	−8.32	WARBURG, PINCUS GROWTH & INCOME	−2.37
LEXINGTON STRATEGIC SILVER	−8.24	MACKENZIE CANADA	−2.29

Appreciation plus reinvested dividends and capital gains, July 1 through Sept. 27, 1993

GOLD
The price of gold peaked in early August, and so did the gold funds. The outlook for another big rally is dim.

ENERGY
Falling oil prices led to losses in some natural-resources funds.

Computer Systems • Telecommunications • Semiconductors • Automotive Electronics • Industrial Components &

INVOLVES.

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HITACHI

Electronics • Medical Systems • Transportation Equipment • Power Plants & Equipment • Electronic Components

TECHNOLOGY
Late in the quarter, computer-related stocks rallied and made tech funds winners.

HOW THE FUND GROUPS FARED

SPECIALTY–TECHNOLOGY	9.68%	EQUITY-INCOME	4.24%
SPECIALTY–FINANCIAL	9.07	GROWTH & INCOME	3.81
FOREIGN	8.68	BALANCED	3.77
EUROPE	8.50	ASSET ALLOCATION	3.39
MAXIMUM GROWTH	8.13	INCOME	3.09
PACIFIC	7.71	SPECIALTY–HEALTH	2.29
WORLD	7.61	SPECIALTY–NATURAL RESOURCES	0.08
SMALL COMPANY	7.50	SPECIALTY–PRECIOUS METALS	–10.53
SPECIALTY–MISCELLANEOUS	6.97	U.S. DIVERSIFIED EQUITY	5.20
SPECIALTY–UTILITIES	6.05	ALL EQUITY FUNDS	5.38
GROWTH	5.02	S&P 500	2.98

Appreciation plus reinvested dividends and capital gains, July 1 through Sept. 27, 1993

HEALTH CARE
At least the hemoh ing has stopped the health-care ful The big question: Clinton's reform p age restore them good health?

the Brazilians are starting to institute the same kinds of reforms that have spurred growth and greatly lowered inflation in Mexico and Argentina.

Some investors are looking to foreign funds to replay the gains earned in the U. S. over the past two years. While real estate stocks have been climbing for over two years in the U. S., they only hit bottom overseas late last year, says Samuel Lieber, who runs the Evergreen Global Real Estate Equity Fund, up 13.91% for the quarter. That, says Lieber, means foreign real estate stocks have a lot more investment potential than U. S. stocks. He has 65% of the fund's holdings overseas.

IPO PUSH. Back in the U. S., small growth companies boosted returns for a broad range of funds, from the $7.5 billion Twentieth Century Ultra Investors to tiny Progressive Aggressive Growth Fund, with less than $1 million in assets. Ultra, with about 40% of its portfolio in computer-related technology stocks, left the other big funds in the dust, with an 11.4% return—a good chunk of which was earned in the closing days of the quarter. Progressive Aggressive, under new manager James Lampson of Denver's Cohig & Associates Inc., racked nearly 25% for the quarter. Among the 23 stocks in Lampson's fund are Air Sensors, a leader in alternative-fuel engine systems; Diagnostek, a mail-order pharmacy; and Soricon, which makes optical character-recognition equipment.

Small growth companies also fared well because of a buoyant market for initial public offerings. "I play the IPO market fairly aggressively," says William Keithler, manager of Invesco Emerging Growth Fund. One big IPO hit that contributed to his 15.82% return was Microchip Technologies. He bought the IPO at the adjusted price of $6.50 per share. It's now nearly $24. Despite the two-year boom, Keithler says a large number of "quality companies" are still coming to market. "I thought by now we'd be scraping bottom," he says.

But not everyone is so sanguine. James Renck runs the Merrill Lynch Technology Fund, which is up 14.65% for the quarter and 28.7% for the year. He has sold off most of his holdings and has 83% of the portfolio in cash. "I'm worried about PC demand and inventory problems," he says. Renck's move definitely goes against many Wall investment strategists who are f ing gains for high-tech stocks coming months.

Among the bond funds, return strongest for the Treasury-only That included three Benham Targ turity funds that invest only i coupon bonds. Because they interest, these bonds are often t performers when rates fall—and when they rise. Many governme funds hold a lot of government-g teed mortgage-backed securities slipped in price as the drop i triggered another round of refina Government-mortgage funds earn 1.3% returns for the quarter; a able-rate mortgage funds, only 0

"STICKER SHOCK." Bond-fund buye reached for the high yields had results. Those who looked abro bought long-term internationa funds fared well, as higher rate seas and a declining dollar bolste turns. Those who stuck to the term international funds only even. Many of those funds lost on hedges when the midsumm rency crisis hit Europe. On the d front, junk-bond funds disappoi vestors, with a total return of on for the quarter.

The muni market was a differe ry. Tax-free funds on average re 3.1% for the quarter, even thoug prices have not kept up with Tre Donald Duerson, who runs nine F tax-exempt funds, suspects the m sluggish because muni buyers are a hard time accepting 5% yields term bonds, even if they are empt. "It's sticker shock," says son. "But they'll get over it."

Low U. S. interest rates cont push investors to search for hig turns. That quest should keep ca ing into mutual funds for a long

By Jeffrey M. Laderman in N

THIRD-QUARTER WINNING BOND FUNDS

APPRECIATION PLUS REINVESTED DIVIDENDS AND CAPITAL GAINS, JULY 1 THROUGH SEPT. 27, 1993

TAXABLE FUNDS		TAX-FREE FUNDS	
BENHAM TARGET MATURITIES 2020	19.85%	MERRILL LYNCH CA INSURED MUNI. BOND B	4.43%
BENHAM TARGET MATURITIES 2015	14.52	NUVEEN NJ TAX-FREE VALUE	4.42
FIDELITY NEW MARKETS INCOME	10.96	EVERGREEN INSURED NATIONAL TAX-FREE	4.40
BENHAM TARGET MATURITIES 2010	10.27	MERRILL LYNCH NC MUNICIPAL BOND B	4.38
FT INTERNATIONAL INCOME	9.52	MERRILL LYNCH MA MUNICIPAL BOND B	4.37
ADVANTAGE GOVERNMENT SECURITIES	8.62	MERRILL LYNCH PA MUNICIPAL BOND A	4.35
G.T. GLOBAL HIGH-INCOME A	8.61	FRANKLIN NY INSURED TAX-FREE INCOME	4.35
G.T. GLOBAL STRATEGIC INCOME A	8.39	MFS TX MUNICIPAL BOND A	4.26
HUNTINGTON GERMAN GOVERNMENT BOND	8.15	CAMBRIDGE MUNICIPAL INCOME A	4.26
RETIREMENT PLANNING CONVERTIBLE SECS.	7.83	MERRILL LYNCH FL MUNICIPAL BOND A	4.24

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Joyce Wrenn,
Chief Information Officer,
Union Pacific Railroad

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BY GENE G. MARCIAL

GRRR! DISNEY BEARS ARE ON THE PROWL

One of the Street's former darlings, Walt Disney, has been a source of nothing but disappointments so far this year. No wonder its stock has headed south, to 38 a share from 48 at the beginning of 1993.

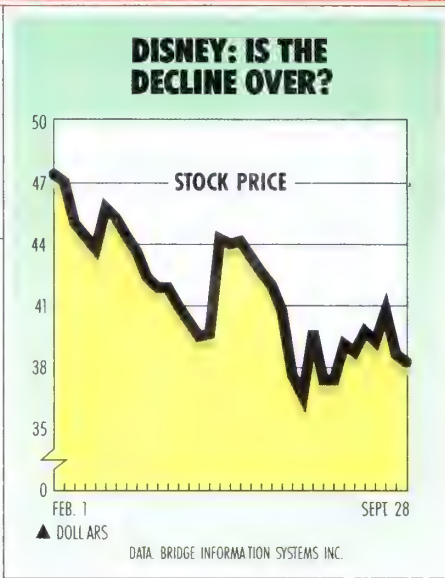
Investors hoping for a bottom will have to wait longer, say some big money pros who have been bailing out of the stock. One New York investment manager who has joined the crowd shorting the stock says that "things will get worse before they get better." He sees the stock hitting 30 before it can rebound.

Many analysts agree. They believe the fourth quarter will show continued disappointing results and have been scaling back their estimates for this year and next. Even some Disney bulls have had to pare down their estimates. Warns David Londoner, veteran entertainment analyst at Wertheim Schroder: "Nobody knows how long Disney will be in the doldrums."

DWARF-SIZE PLAY? Attendance at Disney's theme parks has been flat to down, the company's films haven't been so hot, and consumer-product sales haven't picked up enough to make a difference. Worst of all, Euro-Disney has bombed as attendance has skidded. Warns one pro: If EuroDisney continues to show poor results through early next year, "watch out." He adds that the stock's decline will accelerate.

One analyst who remains high on Disney is Oppenheimer's Jessica Reif. She has cut her estimate but is exhorting clients to use the stock's drop as an opportunity to buy more shares "aggressively." She thinks the sentiment on EuroDisney "is now at a low point and should improve in the coming year."

Analyst Lisbeth Barron at S. G. Warburg strongly disagrees. "The weak fundamentals over the near-to-medium term make an upgrade to a buy premature," she cautions. Barron adds that continued weak attendance at Disney's Orlando park "has caused us to lower our 1993 fourth-quarter estimate from 40¢ a share to 30¢." That puts her 1993 estimate at $1.67, down from an earlier $1.77. For the fiscal year ending Sept. 30, 1994, Barron cut her estimate to $1.95 from $2.10. Her estimates are among the lowest on the Street.



Barron thinks it will be some time before theme park revenues will rebound to a normalized rate of growth. Weak competition in the past had shielded Disney's high price structure, notes Barron. But stepped-up promotion and capital spending at theme parks operated by Time Warner and MCA, among others, have all contributed to the attendance decline at the Orlando resort.

THREE BANKS WITH GREAT FIGURES

Bob Bonelli was a banker before he switched to Wall Street in 1991 as a money manager. Now he is hot on his old bailiwick. "Banks have never looked better than they do now," explains Bonelli, who heads the Ernst Financial Group's Bank Equity Fund. "And I expect they will be the next group that will get caught up in the new takeover frenzy."

The fund has invested $6 million in 20 stocks, many of which, says Bonelli, are buyout bait. Among the tempting targets, he believes, is Comerica, one of the largest bank-holding companies in Michigan, with assets of $25 billion; Provident Bankshares, parent company of Provident Bank of Maryland, a full-service bank in Baltimore, with 38 branches; and Magna Group, the third-largest bank-holding company in St. Louis.

All have strong balance sheets and adequate reserves, a growing loan volume, and healthy double-digit earnings growth, says Bonelli. Comerica is one of the best bargains among the re als, he says. The stock histor trades at a price-earnings multi 12. Now trading on the Big Boa 27, its p-e is just 9. Bonelli figure merica will earn $3.20 a share this and $3.70 next year. Based on ings alone, the stock is worth 3 says. Buyout value: 40.

Provident Bankshares may b other undervalued play. Tradin NASDAQ at 17½, the stock is sellin low its book value of more than With its solid franchise in Balti Provident is worth 30 to 35 in a over deal, says Bonelli. Magna, assets of $4 billion, may become a over target because of its dominan central Illinois and northeast Mis Bonelli figures the NASDAQ stock, 18⅝, is worth 25 based on ear growth alone. In a buyout, M should fetch 30, Bonelli says.

OLD REPUBLIC'S BIG-NAME FANS

For a pretty conservative prop and-casualty insurance com Old Republic International ha lected a mighty impressive gro aggressive investors. Among t George Soros, Mike Steinhardt a the Odyssey Partners.

What gives? For one thing, Ol public shares have been big win since 1990—and they're still on the This year, the Big Board stock cli from 21 in late May to 25⅝, af hefty 45% advance last year. Ye Republic shares are only trading price-earnings multiple of 10—or discount to its peer group's p-e.

"Old Republic shares represe tractive value" when compared other multiline insurers, argues Manning, an analyst at Prudenti curities. Old Republic derives 75% of its earnings from the prop casualty business. Recently, titl mortgage insurance have been a ditional source of big earnings gr The outlook there is favorable, Manning, because of improving ma kets for those businesses.

Investment Manager Manny traub at New York's Shelby C Davis has added to Shelby's sta Old Republic because of the "incre value that we see in the company a niche player in such fields as ers' compensation insurance, ma ment has shown a capacity to c its costs and risks very well, Weintraub.

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WHY MERCEDES IS ALABAMA BOUND

An inside look at the state's feverish pitchwork

Alabama Governor Jim Folsom Jr. was relaxing at home on Saturday, July 31, when an urgent call came in from Billy Joe Camp, the state's development director. Camp had a hunch that Mercedes-Benz officials were about to pick the finalists in the multistate scramble for a $300 million U. S. assembly plant where 1,500 workers would build luxury sport-utility vehicles. If Folsom wanted to keep Alabama in the race, Camp warned, the governor had better be ready for a second lobbying journey to Germany.

Three days later, Folsom was winging his way to Stuttgart with Camp and two state legislators. Intent on winning what Folsom calls "an industrial crown jewel," they spent just 90 minutes in Spartan temporary offices at a former railcar-repair depot pitching Alabama's worker-training program to a handful of young Mercedes executives. The Alabamans also strove to reverse the state's image as a redneck, racist backwater. "We have been working very hard to present the real Alabama," says Folsom, who pitches the state as an emerging leader of the New South.

Before Mercedes picked Alabama as the surprise winner, state officials made one more rush visit to Germany. By that time, they had given Mercedes managers a helicopter tour of the 1,000-acre site near Vance, a small town between Tuscaloosa and Birmingham; they promised more than $200 million in job-training, tax breaks, and other incentives and even offered to rename a section of Interstate 20/59 the "Mercedes-Benz Autobahn."

Whatever worked was worth it: Alabama—which beat out 34 states—will get a big economic boost from the planned factory. But the German auto maker has even more riding on the choice. The new plant and Jeeplike sports-utility vehicle scheduled for production there in 1997 are key elements of Mercedes' desperate bid to reinvent itself. The company has a 30% cost disadvantage against Japanese and U. S. competitors—and has seen its share of the luxury market slip in the past four years. Mercedes' "costs are too high," says Andreas Renschler, the 35-year-old president of Mercedes-Benz Project Inc., the subsidiary that will run the U. S. venture.

Just as Saturn represented General Motors Corp.'s last-ditch attempt in the 1980s to compete head-on with Japan, Mercedes officials hope this project will help them keep Japanese luxury brands at bay. For the first time, Mercedes plans to fully adopt the lean-production techniques developed by Japanese carmakers and become a truly global manufacturer.

PRODUCTIVITY GAP. That's a tall order. For decades, Mercedes officials concede, the company's engineers have pursued automotive excellence with little regard to costs. Its factories were extravagant. A study by Massachusetts Institute of Technology in the late 1980s found them among the least efficient in the world. In some, the space for repairing finished autos equaled the entire square footage of Japanese plants. The resulting productivity gap is behind Mercedes-Benz Chairman Helmut Werner's recent vow to cut 27,000 jobs by 1995 and behind the pressure from parent Daimler Benz to slash $2.3 billion from Mercedes' car and truck operations this year alone.

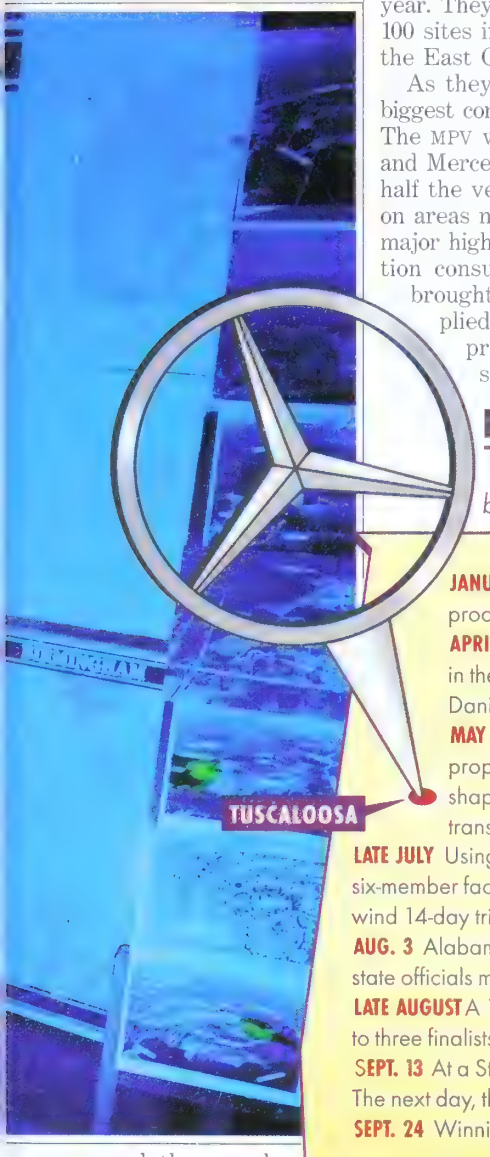
By 1991, Mercedes executives were already trying to catch up. They had formed brainstorming groups—called *Querdenker* in German, meaning "diagonal thinkers"—to identify radical new ways of designing and building cars. One such group O. K.'d a feasibility study for a h sports-utility veh dubbed Multi-Pu Vehicle, or MPV—n mainly at the "It's the biggest ket in the world for this type of says Renschler.

It was Renschler's task to locate the plant outside Germany. Now, he's responsible for it

To manage the venture, Mer turned away from its established e tive ranks. Although with the cor just four years, Renschler, then d to Werner, was named to hea project. He assembled a team of 25 youthful product planners, engi and marketers. They set up shop temporary office in Stuttgart's inc

ertürkheim district. There they y work 16-hour days, subsisting ered pizzas.

chler's brief was a bold one: Find utside Germany. Until now, all es autos have been built there, for a few thousand assembled nported kits in "screwdriver" n such places as South Africa.



um narrowed the search h America, figuring the ed costs there of labor, , and components would st.

ing a lid on costs is cru- ercedes plans to price the der $30,000—about the same as ded Jeep Grand Cherokees. Yet it's 65,000-vehicles-a-year produc- ces it at a disadvantage to vol- oducers such as Chrysler Corp., builds twice that many Grand ees. Mercedes hopes to match nd Cherokee's 10 hours per vehi- assembly labor, but with Mer- quality. Still, Werner says that the plant should break even at production levels as low as 40,000 vehicles annually.

By March, the team had decided to build in the U. S. to be close to its target market and avoid the penalties of currency swings. On Apr. 5, Werner and other Mercedes officials outlined their plans and promised to break ground this year. They began considering more than 100 sites in 35 states from California to the East Coast.

As they sifted the possibilities, their biggest concern was transportation costs. The MPV will be built only in the U. S., and Mercedes expects to export at least half the vehicles. So the team zeroed in on areas near Atlantic or Gulf seaports, major highways, and rail lines. Construction consultant Fluor Daniel Inc. was brought in to aid the search. It supplied a map of the U. S. with the prime search area—a crescent-shaped swath from New York to Texas—shaded to designate increasing shipping fees. Two Midwestern sites—with the advantage of being in the center of the market—also made the cut: Omaha and a former Caterpillar Inc. factory in Davenport, Iowa.

The age distribution and mix of skilled and semi-skilled workers were also considered. Renschler insists that right-to-work laws and low unionization weren't a factor in the decision—and points out that some Mercedes-owned Freightliner truck plants in the U. S. are unionized.

To avoid a circus atmosphere, Renschler and his team tried to keep their visits and deliberations secret. When the press got wind of the project's code name, Rosewood, it was changed to the German equivalent, *Rosenholz*. Team members traveled under assumed names—a ploy that meant Mercedes Managing Director Dieter Zetsche's secretary couldn't even get through to him at the Omni Hotel in Charleston, S. C.

DUELING GOVERNORS. Of course, there were mishaps. To avoid reporters who got wind of a secret meeting at the Greensborough (N. C.) airport, "we all went traipsing out back doors," recalls Fluor Daniel consultant William Dorsey. On another occasion, Dorsey was chatting with Folsom at the North River Yacht Club in Tuscaloosa when his cellular phone rang. He excused himself to answer and found himself speaking with North Carolina Governor Jim Hunt Jr.

The final cut came Sept. 13. The 12-member site-selection team assembled in the small, second-floor meeting room in the Untertürkheim headquarters. From 8 a.m. until 2 p.m., the group discussed the merits of the three finalists—North Carolina, South Carolina, and Alabama. From the beginning, everyone agreed on Alabama except two Fluor Daniel employees who argued for North Carolina. But they were soon won over. Ironically, Alabama's Camp, sniffing another important meeting, arrived with other officials that same day. After the team adjourned, several Mercedes officials dined with the group, telling them they still had a good shot at winning.

In the end, gut feelings carried the day. The three finalists were in a dead heat when it came to business climate, education levels, and transportation. Alabama's incentive package was a bit richer than North and South Carolina's, but Mercedes officials say long-term operating costs in all three locations were roughly equal. "Whether you get $10 million more or less in one state doesn't make any difference," says Renschler. The deciding factor was Alabama's zeal. "We sensed a much higher dedication to our project," says Zetsche, the managing director. And one final factor didn't hurt: the wooded, rolling hills around the site reminded the Germans of the Swabian countryside near Stuttgart.

By David Woodruff in Detroit and John Templeman in Stuttgart

ROADMAP TO AMERICA

How Mercedes decided where to build its first car factory in the U.S.

JANUARY, 1993 Worldwide site-selection process begins.

APRIL Mercedes announces it will build in the U.S. and hires consultant Fluor Daniel to aid in the search.

MAY 12 In a Stuttgart meeting, Fluor Daniel proposes that the search focus on a banana-shaped swath of the Southeast U.S. where transportation costs will be lowest.

LATE JULY Using assumed names to avoid detection, a six-member fact-finding team visits six final sites in whirlwind 14-day trip.

AUG. 3 Alabama Governor James Folsom and three other state officials make a hasty lobbying trip to Stuttgart.

LATE AUGUST A 12-member site-selection team pares the list to three finalists—Alabama, North Carolina, South Carolina.

SEPT. 13 At a Stuttgart meeting, the team picks final winner. The next day, the Mercedes-Benz board approves.

SEPT. 24 Winning state Alabama is notified.

COMPUTERS

THEATER OF OPERATIONS: PLAYWRIGHT REAVES WORKING AT HOME, WITH HIS HOT GEAR

STALKING THE $5 BILLION NERD

Computer jocks sure get ribbed, but they're no joke to PC giants

John [illegible] in Manhattan, he spends much of his [illegible] combine dance movement and drama for [illegible]. But walk into his small apartment and you'd think he was running a program-[illegible] crammed with $25,000 worth of personal-computer equipment. Yes, beneath this mild-mannered playwright's exterior beats the heart of a supernerd.

Computer makers are finding there are a lot of John Reaveses—customers [illegible] pocket protectors. There [illegible]

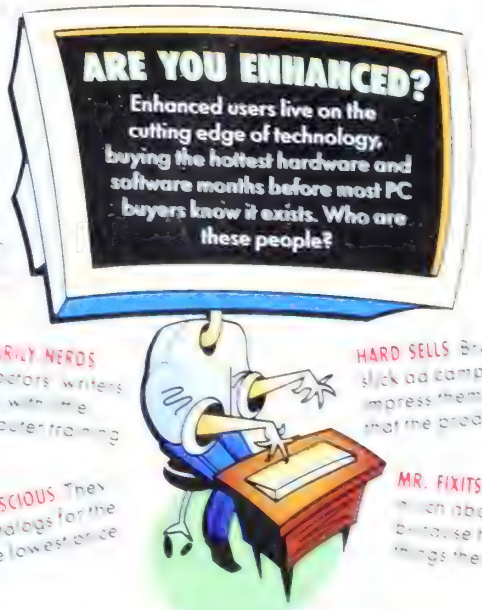
And PC makers want them. IBM has launched the Ambra mail-order subsidiary to reach these power users, and Dell Computer Corp. recently added the [illegible] customers. "I call them heat seekers," says James Cannavino, head of IBM's Personal Systems, which has Ambra under its umbrella. "You find them in every area. In golf, they have to have the latest clubs." Officially, IBM calls them "enhanced users," and Dell [illegible] sold in the U.S. And, both IBM a[illegible]

DO-IT-YOURSELFERS. "We [illegible] think," says Tom Martin, Dell's [illegible] ing director. New-think. Marti[illegible] lion market peopled by doctors, l[illegible] know types who use their com[illegible] for everything from running the [illegible] es to creating music videos.

[illegible] grow rich selling to these cust[illegible] They demand the latest technolo[illegible] they also know that no PC make[illegible] [illegible] chine. And techno-wizards woul[illegible] caught dead in a computer st[illegible] mologist from New Jersey, p[illegible] "Computer stores? Ninety percen[illegible] people there are idiots. They h[illegible] dumbest employees I ever saw."

Enhanced users also don't pu[illegible] still be in business next year[illegible] mostly buy IBM-standard machin[illegible] ple's Macintosh is dismissed as a [illegible] priced yuppie computer—so they[illegible] they can always find parts some[illegible] Anyhow, by next year they'll be [illegible] up to something new. Nor are t[illegible] pressed by service contracts, sin[illegible] you are paying for when you bu[illegible] Dell or another big company is [illegible] and reliability. But you pay a pr[illegible] for that, and I'm not willing t[illegible] says Mark D. Nathans, a financ[illegible] sultant with Acumen Internatio[illegible] ficient enough to handle most pr[illegible] on my own."

[illegible] tard with this group. They c[illegible] themselves far too knowledgeable [illegible] for a glitzy ad campaign or a [illegible] label. The only manufacturer wit[illegible] in this market is Gateway 20[illegible] South Dakota ma[illegible] house with a rep[illegible] at rock-bottom [illegible] But even Gatewa[illegible] count on brand [illegible] Nathans says he [illegible] ly considered Ga[illegible] when he had to [illegible]



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Only 15% of all companies on Compustat's database passed these tests and were invited to make this free offer of investor information. Thirty-four of these exceptional companies appear below.

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   development of biopharmaceuticals
7. **Callaway Golf Company**
   golf club designer and manufacturer
8. **Creative Technologies Corp.**
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   specialty chemicals and machinery
10. **Destec Energy, Inc.**
    independent power company / cogeneration
11. **Frozen Food Express Industries, Inc.**
    largest food trucker, record profits
12. **Goody's Family Clothing, Inc.**
    moderately priced fashion retailer
13. **Green Tree Financial Corporation**
    leading financial services company
14. **Input/Output, Inc.**
    manufacturer, high-tech seismic equipment
15. **Jack Henry & Associates, Inc.**
    computer software for banks
16. **Jennifer Convertibles, Inc.**
    specialty furniture retailer
17. **Leasing Solutions, Inc.**
    high-tech vendor leasing
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20. **Pace American Group, Inc.**
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31. **Telephone and Data Systems, Inc.**
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Please circle below the number assigned to each company listed on this page whose report you would like to receive. Your request will be forwarded to each company and information mailed promptly. **Deadline for response 12/10/93.**

2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18
19	20	21	22	23	24	25	26	27	28	29	30	31	32	33	34	

My primary interest in these companies is as a (circle one):

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decided to keep shopping around, in part because of reports that Gateway was having trouble filling orders. He ended up buying from little-known EPS Technologies Inc. Why? "The price was right," he says.

Still, both Dell and IBM see Gateway as the one to beat in the techno-wiz market. Dell is now running ads in a dozen computer publications that specifically go after Gateway. David B. Middleton, president of IBM's Ambra, candidly admits that he wants those "enhanced buyers who were considering Gateway."

Middleton, however, has one tough sell ahead of him. IBM is one brand the techno-wizards agree on: They hate it. "Anyone who knows anything about PCs tends to hate IBM," asserts Jake A. Bauer, president of Annapolis (Md.)-based Bauer & Associates Inc., an independent consultant who installs computer systems for small businesses. "This is based on the absolute fact that IBM has consistently throughout the history of the PC underdesigned their machines." IBM shouldn't take it too hard: Bauer doesn't think any PC maker measures up. He built his four PCs himself.

RESISTING IBM. Part of IBM's motivation in chasing the techno-wizards is to kill the old image of IBM PCs as high-priced and trailing-edge. That's why the new unit is called Ambra—to make the point that these PCs, which are being assembled by SCI Systems Inc. in Huntsville, Ala., are completely different from the rest of IBM's product line. Power users, however, are waiting to be impressed. They are aware of Ambra—some say they are even willing to investigate the machines—but few speak with enthusiasm. It hasn't helped that IBM has had trouble filling initial orders, a problem Ambra officials say is now cleared up.

"I'm afraid what we're seeing is that IBM has been written off in the mind of power users," says Clyde Washburn, who sells circuit boards for upgrading PCs. It doesn't even matter if Ambra turns out to be a great machine, he says. "Most of the power users we talk to seem to have decided that their future plans don't include IBM." Which may be why Gateway President Ted Waitt says of the Big Blue attack, "Now that I've seen what they're doing, I'm not losing any sleep over it."

But one IBM sales official says any gains among the techno-elite are welcome: "We owned zero percent of this market up to now. If we pick up 10% to 15% of something we never had a share of before, that's good." That's why all those supernerds out there can expect a lot more courting from the big brands.

By Catherine Arnst in New York, with bureau reports

INFORMATION SERVICES

THE CLEAVERS ENTER CYBERSPACE

On-line services give millions access to Internet's E-mail worl

Is Middle America ready for the Internet? The worldwide web of some 45,000 networks has been an underground movement of sorts—a cyberspace hangout where researchers, students, and techies spend hours tapping into data bases and discussing the most esoteric of subjects in electronic forums. But with Internet doubling in members during the past year—to 15 million—demand is spreading to ordinary consumers. Still, Internet is pretty hard to navigate. "You have to learn a rather arcane language of commands," says Howard Funk, an associate with the Internet Society, a user group.

That's where the more user-friendly consumer networks see dollar signs. In November, Prodigy, the No. 1 on-line service, will offer its 2 million members a simple electronic mail "gateway" to Internet. And America Online, the fastest-growing service, will offer its 350,000 members some of the Internet's more advanced features. That will put the generally well-heeled suburbanites on these services in touch with folks they might not meet otherwise.

KEY LINKUP. For Prodigy, a money-losing joint venture between IBM and Sears, Roebuck & Co., the linkup represents a big opportunity. President and CEO Ross S. Glatzer calls Internet "a Wild West show" that will never become the backbone of a national data superhighway unless it's usable by mere mortals. That view is shared by America Online as well as 1.3 million-member C Serve and 400,000-member GEni offer Internet E-mail gateways. Bil oney, director of the Electronic Assn., a trade group, predicts such may become the most popular w tap into Internet.

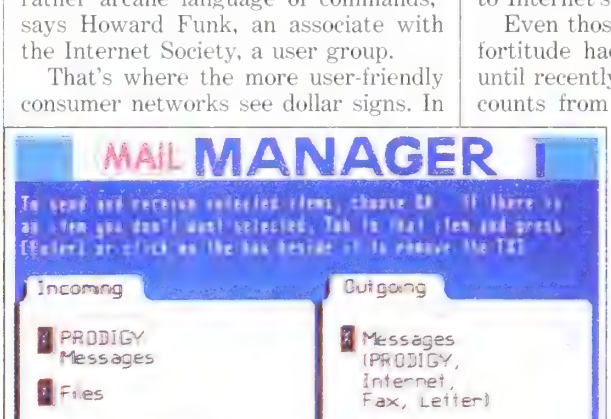
And not just for E-mail. Late month, Vienna (Va.)-based Americ line will let members join Inte 4,000 bulletin boards where peop bate everything from Beavis and head to NAFTA. AOL users can also to Internet's electronic libraries.

Even those consumers with tec fortitude had no way to join In until recently. Most people must g counts from companies, research or universities tha service fees—aver $40,000 per year company. The onl service that has l unaffiliated roam fr Delphi Internet Se Inc., in Cambridge, Recently acquire News Corp., the 1 member network sa trying to make In friendlier for subsc who pay $20 per m

But bringing the es to Internet poses issues. Foremost is ing. While Intern are accustomed to ping scores of E-mail notes pe Prodigy provides just 30 free me per month and plans to charge 1 every Internet message there "That's not what your standard In user now enjoys," says Funk.

Still, the consumer influx repres huge addition to what is alread world's biggest electronic comm And it's hard to predict what the nation might yield. Stephen C. D Prodigy's manager of E-mail, e big demand from Prodigy member kids in college on Internet. So, ex tide of E-mail from parents n their kids to visit—followed by a w replies asking for money.

By Evan I. Schwartz in White N. Y.



PRODIGY ON SCREEN: NOT ALL MESSAGES WILL BE FREE

NIFFING OUT NFAIR LENDERS

on's watchdogs are on the prowl—and showing unusual zeal

anks are used to federal regulators making requests for information. But not like this. In May, fice of the Comptroller of the Cur- asked a unit of Los Angeles-based Interstate Bank Ltd. to sort its n mortgage lending 180 different Examiners wanted to see how nterstate evaluated its loan appli- by race, sex, and income level, other things. The bank's com- system devoted an entire day to ing the massive document request. t Interstate is one of perhaps doz- banks under review in one of the n Administration's most sweeping tory efforts to date. The Adminis- has made no secret about its in- n to snuff out discriminatory lend- ut the scope and muscle of the ve has caught some bankers by se. No fewer than six different nment entities are rifling h bank-lending records over practices that fair to minorities. will be casu- in this be- the govern- wants to an example," ohn Relman, r of the Fair ig Project at ashington Law- Committee for Rights.

H-HUNT." The rt press is but- d by the aggres- ctics used in pre- y inquiries. Examiners cing sworn testimony. Enforce- ttorneys and court reporters are scene even before evidence has massed. Testers have been de- to provide case studies of how ly situated loan applicants from an of races are judged. And custom- e being queried to determine er race affects the quality of ser- offered. "It almost seems like e on a witch-hunt," says one branch manager of a mortgage company under review.

First Interstate officials won't comment except to say they are committed to fair lending. But NationsBank, Charlotte, N.C., which just finished an intensive three-month OCC exam, says the Fed's demands went far beyond the norm. The adversarial nature of these probes has some in the industry wondering whether they are presumed guilty. "In a normal situation, examiners don't feel the need to get each syllable on the record," says Robert H. Ledig, a banking lawyer in Washington. "Sitting there with a court reporter and a raised right hand doesn't exactly encourage the free flow of discussion."

Nonetheless, the strategy is working. The comptroller's office, which has completed 8 of its promised 20 fair-lending examinations this year, has already unearthed enough evidence to warrant referrals to the Justice Dept., confirms Stephen Cross, the OCC's deputy comptroller for compliance. Cross says the agency has found patterns of disparate treatment for whites and blacks as well as instances in which the terms of loans approved for whites are better than those offered minorities. The Justice Dept. is working up about a half-dozen cases of its own, spurred by the interest that Attorney General Janet Reno has shown in fair-lending matters.

MURKY BUSINESS. The government's intensity is setting the stage for a showdown between regulators and bankers. Legal experts contend that the law is murky about how to prove discriminatory behavior. The rub comes from conduct that bankers may view as sound business but regulators consider flagrantly discriminatory. "This is almost a new frontier for the civil-rights enforcement apparatus," says Charles J. Cooper, an alumnus of the Justice Dept.'s Civil Rights Div. under Ronald Reagan.

Further complicating matters is the use of government testers who pose as loan applicants. The Housing & Urban Development Dept. is working with a civil rights group, which uses both whites and minorities to fill out loan applications with identical financial information to see whether they are treated alike. The OCC has plans for similar reviews. Some lawyers question the use of testers because they provide banks with fraudulent data. "If I were defending a bank, I'd want to bring in evidence as to how many crimes the government committed to prove I was a bad guy," says Ledig.

Whatever the government's tactics, the crackdown is sure to inspire bankers to step up lending to minorities and inner-city communities. But there's only so much the regulators can do to alter deeply ingrained attitudes. That aspect of reform may have to be left up to the bankers themselves.

By Linda Himelstein, with Kelley Holland, in New York and Catherine Yang in Washington

THE FEDS HAVE UNCOVERED RACIAL DISCRIMINATION IN BANKS' LENDING PRACTICES

RED PENGUINS, FREE BEER, AND HARD ROCK

The Russian Army hockey team is now capitalism on ice

A PITTSBURGH INVESTORS GROUP PICKED UP 50% OF THE RED ARMY CLUB FOR $1.2 MILLION

For hockey owners, the National Hockey League All-Star contest is a schmoozing extravaganza, with business often at center ice. Last February's match in Montreal was no exception. But among the wheelers and dealers on the All-Star cocktail circuit was an unlikely contingent of Russian military officers on a post-cold-war mission: Find deep-pocketed Westerners willing to bail out the Central Red Army Hockey Club.

And the Russians scored quickly. They sold 50% of the team to Pittsburgh Penguins Chairman Howard Baldwin and a small group of investors, including Penguins star Mario Lemieux and the actor Michael J. Fox. The price was $1.2 million, barely enough to keep Le and teammates in skates season. The prize was hal once-glorious franchise fall hard times, its fast-skating, sion-shooting lieutenants making millions in Detroit, delphia, and Buffalo. Wha Russian team needed to s in the new world order, Baldwin, was "a new min It's called capitalism."

And Baldwin's style of c ism, with a bow to P.T. Ba is turning the staid world o sian hockey on its head. "R Penguins" hockey now with laser shows and roc sic. Some nights there's beer. On others, dancers tain the crowd by strippi their hockey jerseys to le beneath.

In late September, as dent Boris Yeltsin and the ment battled over democ future, fans thronged Mo once-austere Ice Palace. Vl Zoyev, 40, a career army dressed in full regalia, tapp feet to Queen's *We Will Rock Yo* ing from speakers after the first p "Of course I am concerned abo country," he said. "But I love hoc

FOLLOW THE DUCK. The glitz has boost attendance at Red Army from about 500 last year to several sand this season. Baldwin isn't go build any empires with the take the ticket window, however. Far less than 25¢ f best seats—vs. Pittsburgh gam looks to atten only to stir up ment around team, paving th for more pro promotions.

First, Baldw shooting for cor sponsors. With a televised acros country, the R Penguins are o

OH, WHAT A DIFFERENCE

	Pittsburgh Penguins	Russian Penguins
AVERAGE SALARY	$700,000	$12,000
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COOL MASCOT. [illegible] Russian Penguins on a promotio[illegible] mascot, says Steven Warshaw, [illegible] "is a hip-looking bird."

Despite all the merchandisi[illegible] hockey angle. Red Army coach [illegible] Tikhonov is a hockey legend wh[illegible]

[illegible] are closely following the Pengui[illegible] rivals to undiscovered skaters. "[illegible] level's higher here," says Mark [illegible]

Much of the battling ahead fo[illegible] win & Co. is likely to be with Re[illegible] partners resistant to the Am[illegible] marketing blitz. It was only afte[illegible] with a top general that team [illegible] lish-language lettering on the [illegible] And the military worried that [illegible] night might pack in more Mus[illegible] than the arena could handle.

[illegible] time for more Western razzmata[illegible] if Baldwin's new hockey promotio[illegible] money into the Red Army's d[illegible]

[illegible]

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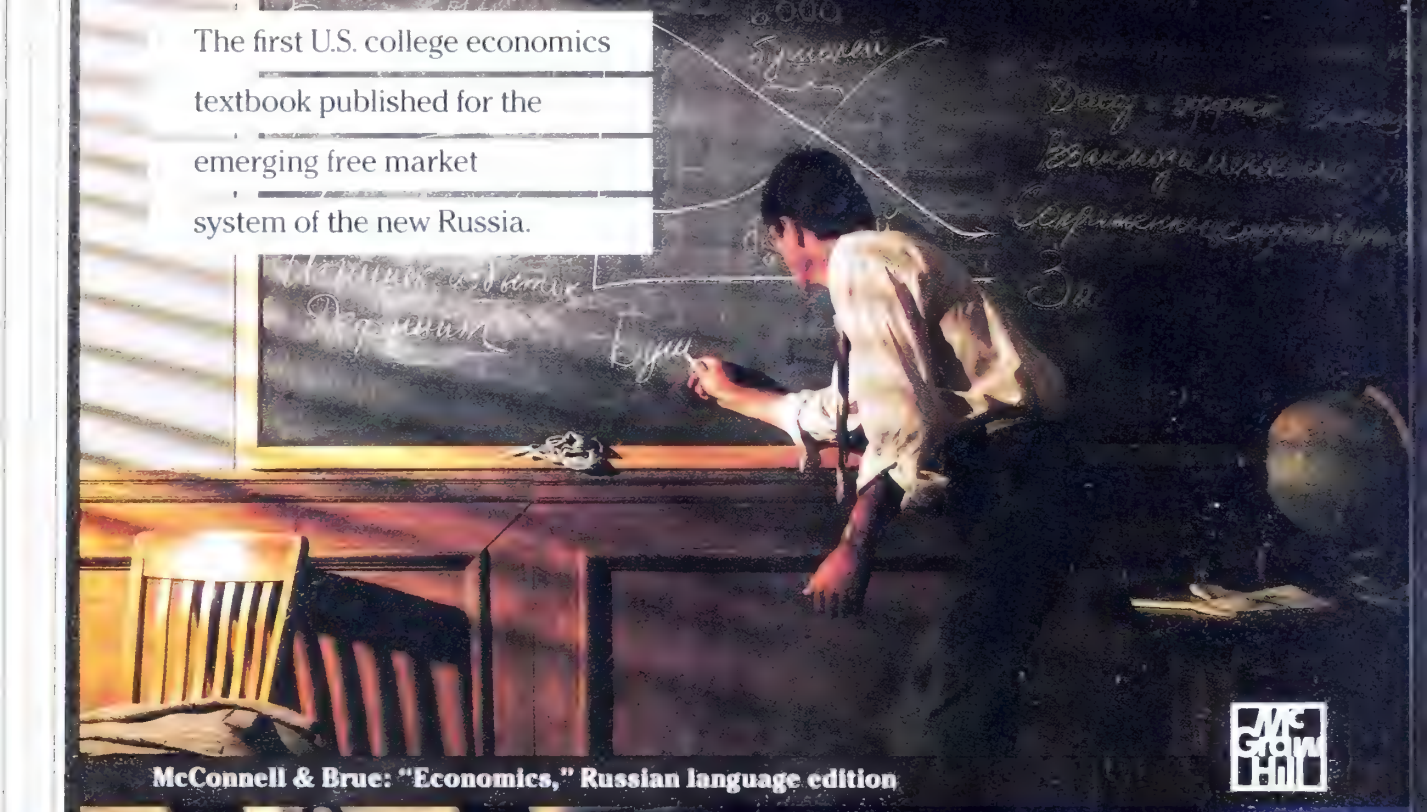

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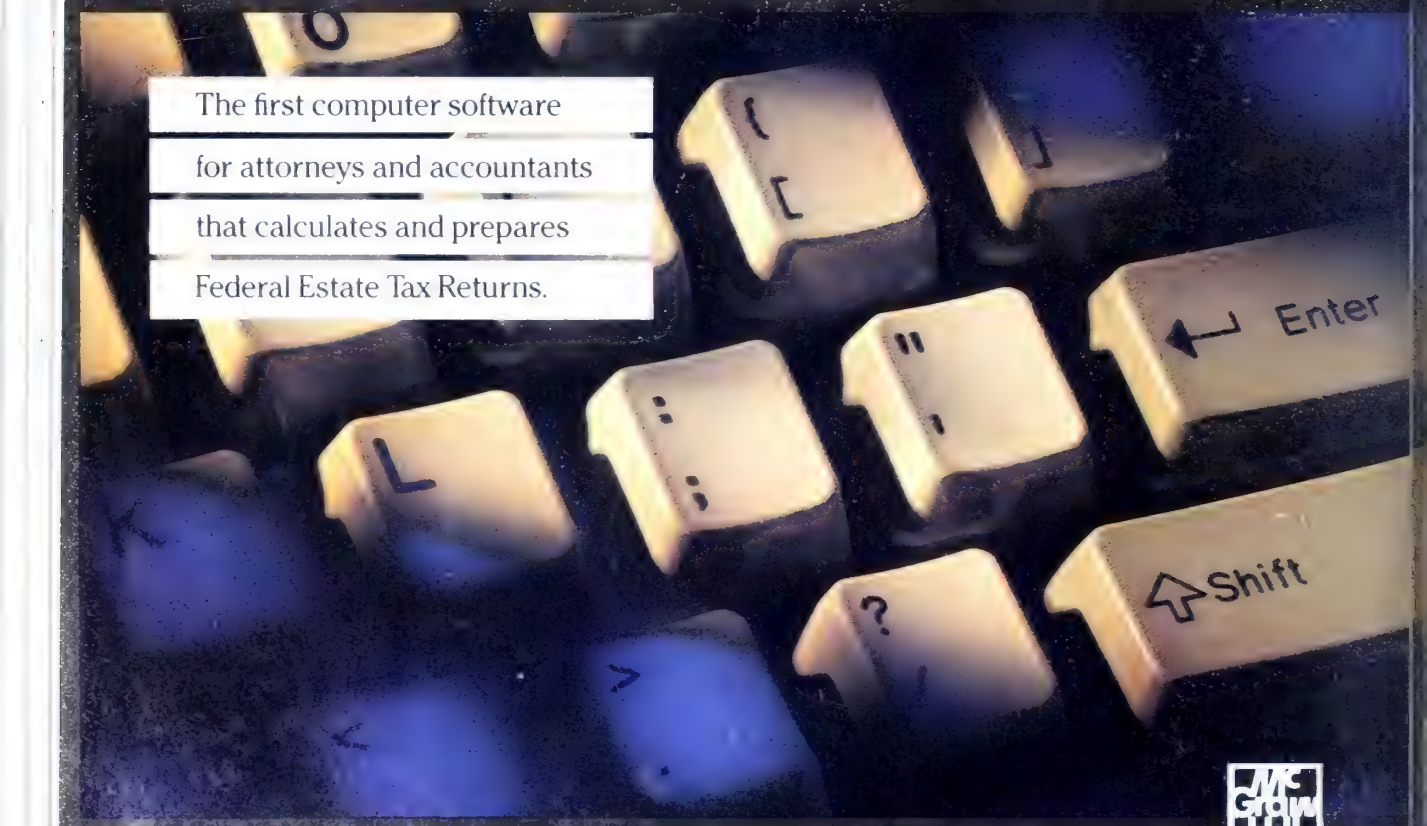

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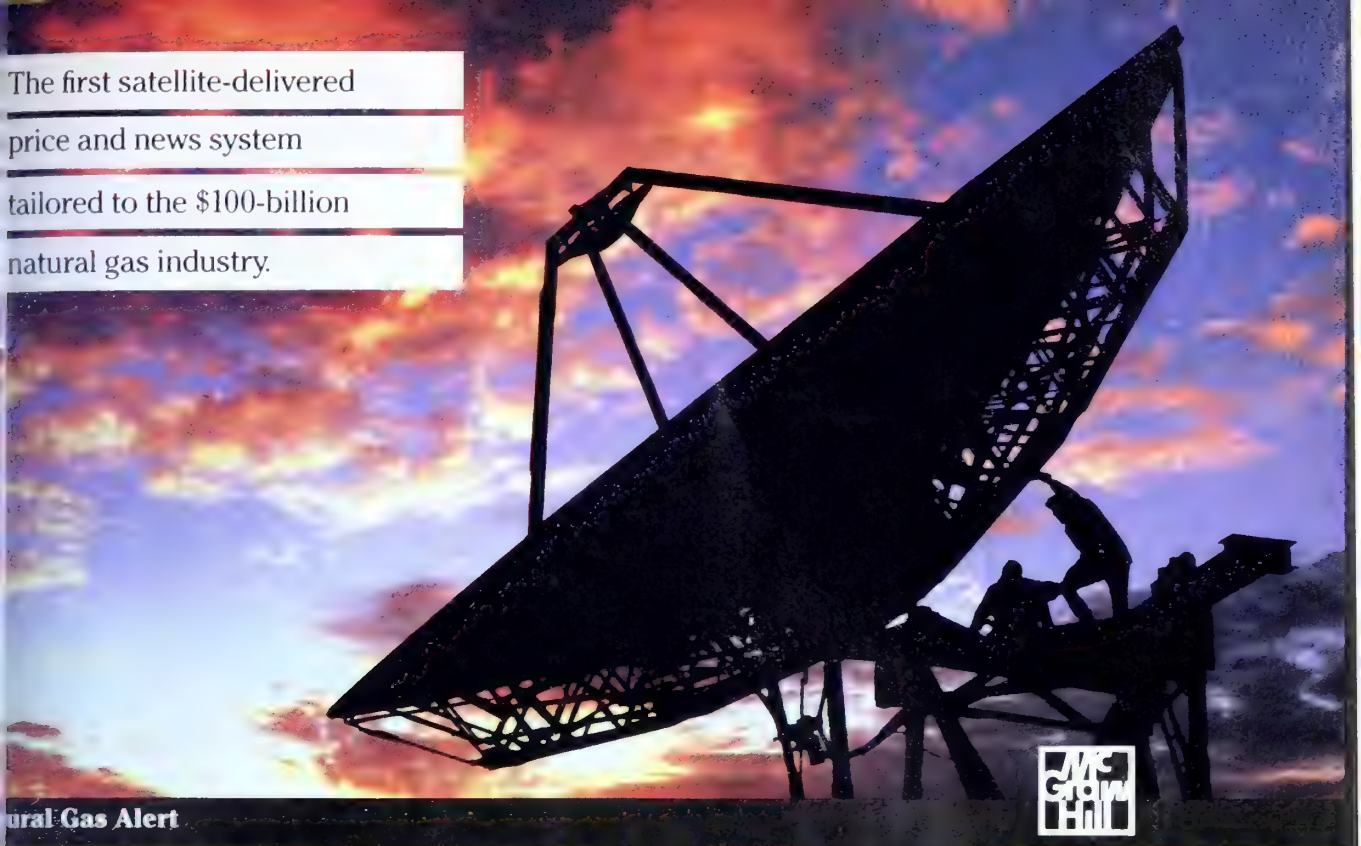

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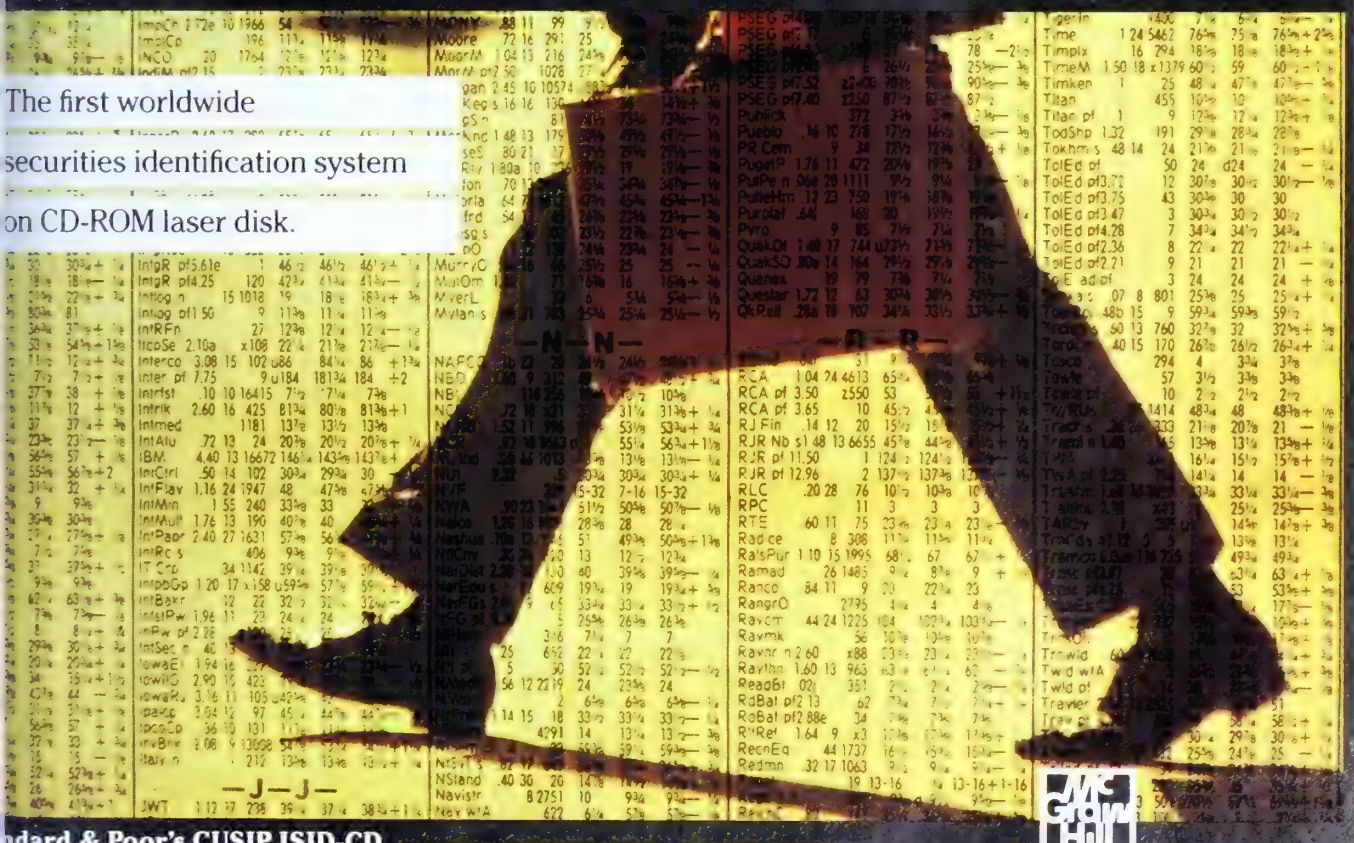

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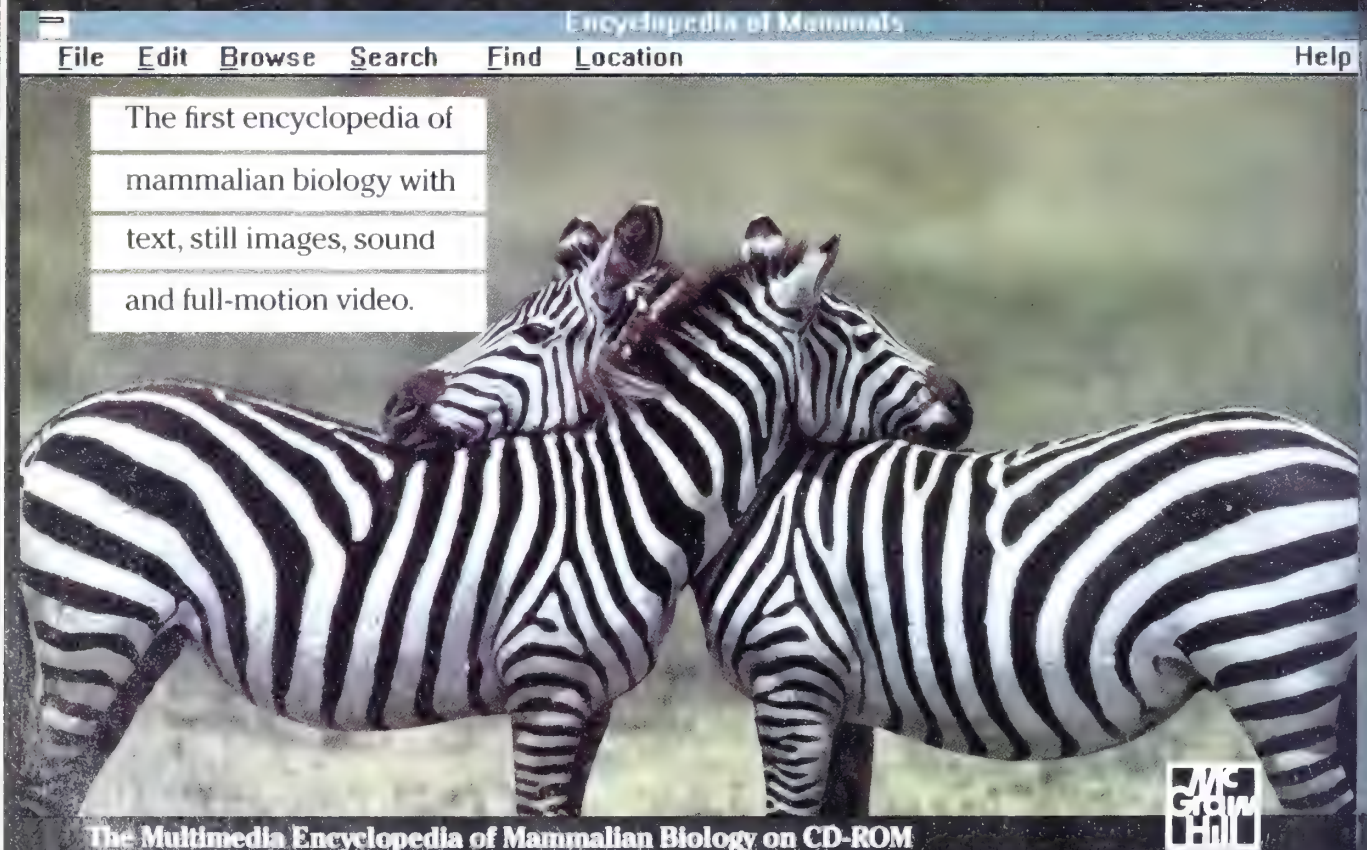

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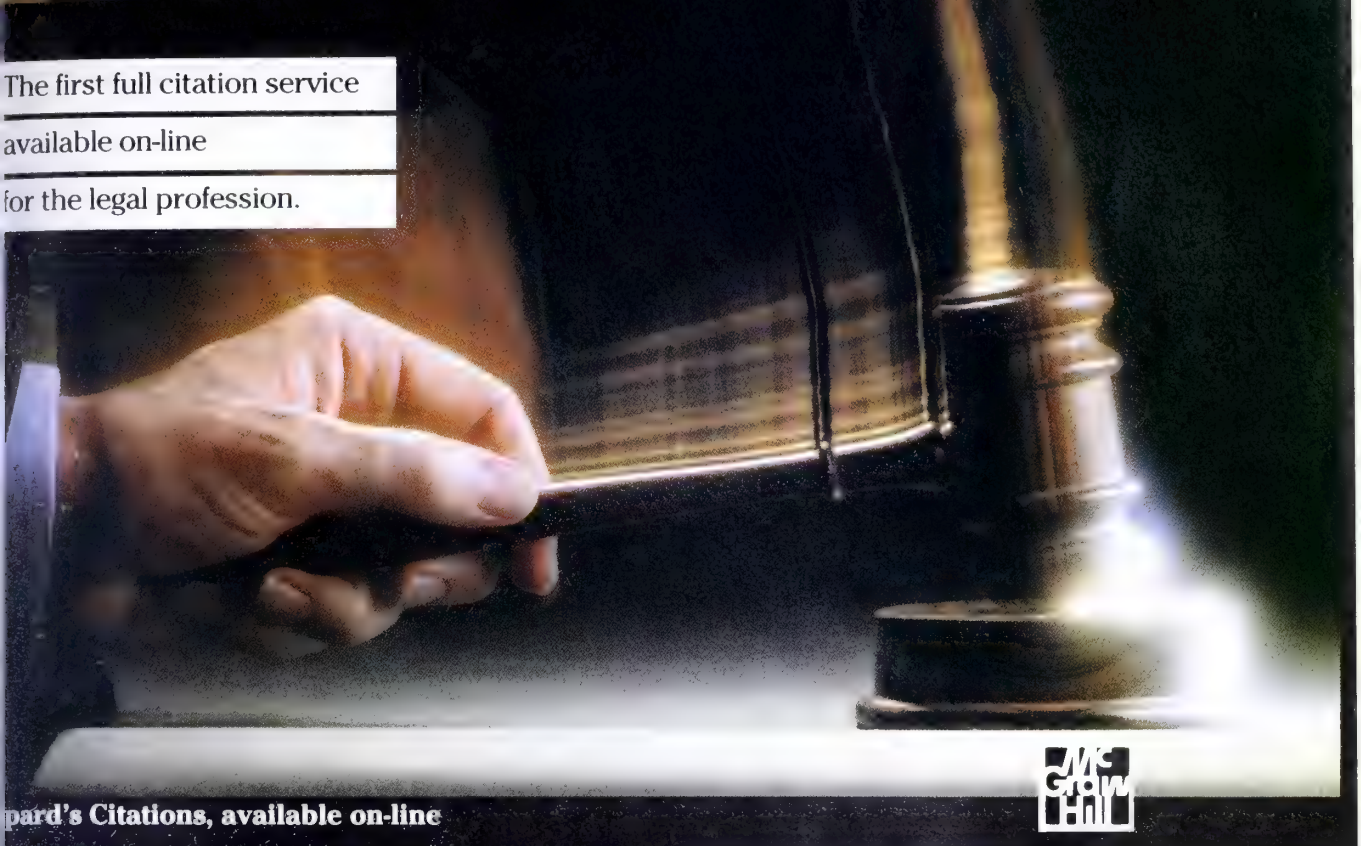

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EDITED BY AMY DUNKIN

Investing

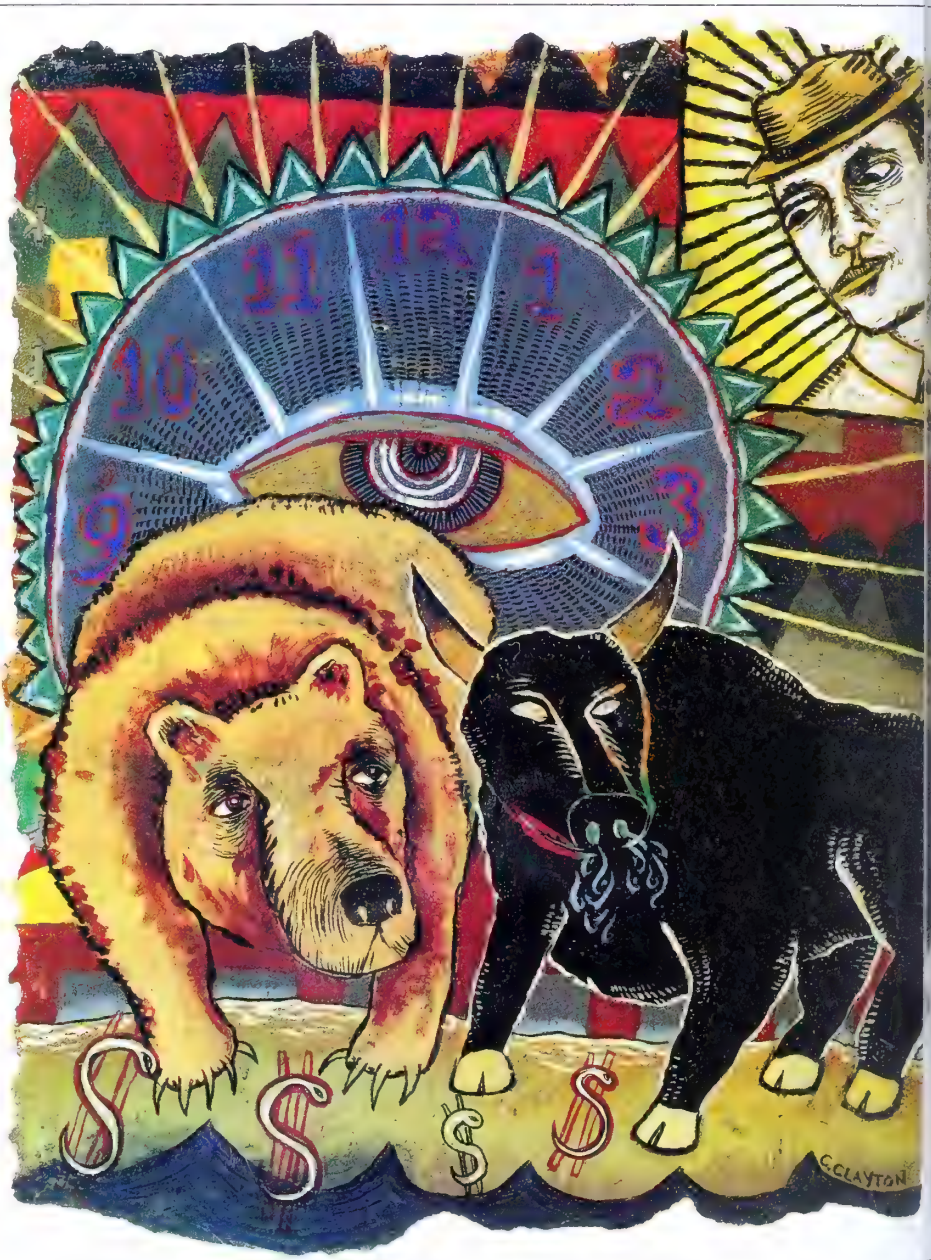
STOCKS: WHEN TO HOLD 'EM, WHEN TO FOLD 'EM

Are you fighting the urge to rush out and sell all your stocks? Well, keep fighting. Many people never realize the potential gains of equity investing because they sell at the wrong time. "People always sell too quickly on the upside and hold on too long on the downside," says John Markese, president of the American Association of Individual Investors. Mutual-fund investors are also prone to selling when returns dip, then miss out on the recovery that typically follows.

Holding 'em when your gut tells you to fold 'em may be tough advice to follow in these times of rampant market pessimism. Although some bulls are still sticking their necks out, predicting the Dow Jones industrial average will soar above 4000, more and more bears are pointing to signs that stocks are overvalued and predicting a correction (about a 10% decline) or a full-fledged bear market (as much as a 25% drop).

TAX PAINS. Even pros who sense danger advise against selling into a downturn. "Pare back if you want, but don't sell everything," says Michael Hirsch, vice-chairman of Republic Asset Management and an operator of multifund mutual funds. He has about 40% of assets under management in cash, ready to plunge back into a bear market.

Individual investors are prone to other selling mistakes. A typical one is unloading a healthy stock that is rising steadily just to take a profit. If your equity holdings are performing well as the bull market continues, "you don't get out," says Kenneth Heebner, manager of CGM Mutual Fund. Let profits run until something happens that makes selling necessary.



If you sell at the wrong time, not only do you miss out on potential future gains but you also incur tax consequences. Remember that whatever profits you are taking will be diminished by a 28% capital-gains tax, possibly more if you didn't hold the stock for a year, says Arthur Bonnel, manager of the MIM Stock Appreciation Fund.

The flip side of selling too early is selling too late because you can't bear t with a treasured stock though it is declining st and its prospects look "Don't marry your stock familiar mantra of inv "You have to look at emotionally every time

l Miller, manager of Put-New Opportunity Fund. avoid these pitfalls, de- a sell discipline and put equity holdings to the henever something ma- happens to affect the price or the fund re- Look at your holdings you were considering g them today. "If it is ger a buy, then it is a Markese says.

often individual inves- uy because one person hem to and sell because ne else recommends it, Bonnel. "They are sell- r totally different rea- han they bought it," he But as irrational as it em at times, the mar- intelligent, money man- say, and investors have ave rationally to reap vards.

RM. For a stock to be a ompanies must demon- earnings growth, have lling valuations, and an ability to execute a for continued growth, Fred Kobrick, manager tLife-State Street Capi- ppreciation Fund. He the stock meets his es- d price target or if gement starts experi- ng with a new strategy ls to execute a plan. e are three legs to the he says. "To buy, you o have all three; to sell, ny one away, and the is done."

sell discipline doesn't deciding to sell every a stock doubles or de- to a certain point. "That ificial," says Markese. l rules are usually dan- s." The most important —personal-judgment—is sible to quantify. "There ot of art in this," con- Kobrick. Beyond that, lling strategies of most managers boil down to simple principles that to both mutual funds ocks.

st of all, only sell based rformance if your stock d has fallen in compari- ith a peer group. Re- er that fund managers ecently posted dismal s are likely to have in-

ONE SELL SIGN: WASHINGTON IS STICKING ITS NOSE IN AN INDUSTRY

vested in stocks that just fell, and their portfolios could be poised to bounce back.

Likewise, if a stock or mutual fund does badly, the market may just be rotating away from that sector or investment style temporarily. With mutual funds, know what the major holdings and most heavily weighted sectors are to understand why returns rise and fall. With stocks, keep an eye on the valuation and fundamentals as you follow price movements. Did earnings per share come in below consensus expectations? Is the price-earnings ratio much higher than comparable companies? (If so, your stock may be overvalued.) In general, the more research you do, the less you have to worry about price fluctuations. The price will eventually reflect a good stock's intrinsic value, says Miller.

Major news that affects the company or major holdings of a mutual fund can override fundamentals. For example, pharmaceutical stocks began to fall as soon as Bill Clinton, who promised health-care reform, was elected. "When government starts nosing around in an industry, that's a good sell signal," say Bonnel. Sometimes even professionals don't know why a stock is doing poorly, but they get out anyway. "If it goes down, and you don't have a good feel for it, it's better to get rid of it," says Kobrick. "There are a lot of fish in the ocean."

If a stock or fund is underperforming relative to its peer group, six months to a year is plenty of time to allow it to turn around, although some mutual-fund managers would like to have a full market cycle, about five years, to prove themselves. "A year gives you some tax potential," Markese says, because you have to hold a stock for that long to qualify for capital-gains-tax treatment, which is preferential for taxpayers above the 28% income tax bracket.

Another key to deciding when to sell is knowing who is in charge. Look for turnover in top decision-makers or signs that a strategy is floundering. This is doubly true for mutual-fund investing, where "you're buying someone's talent in investing stocks," says Hirsch. Although a change in manager is a red flag, it is not always a reason to sell. When the well-regarded Peter Lynch left Fidelity's Magellan Fund, many investors feared the star fund would go downhill. But under replacement Morris Smith and now Jeff Vinik, the fund's returns have continued to soar.

SWITCHING HORSES. Keep a close watch on portfolio managers when the fund gets large and unwieldy. Aggressive growth managers in particular may have trouble finding enough small companies in which to invest. Also, watch for managers who change investment philosophy or veer from a stated objective. Lack of candor or potential problems with compliance are reasons to sell at once.

If your investments are performing well, stock fundamentals are holding up, the management is solid, and you still want out, look at yourself. "If you are going to watch the daily stock quotes with extreme trepidation, then you don't belong in the market," Hirsch says.

Some worrying goes hand in hand with investing in equities. But if you develop a disciplined strategy and stick with it, you can sell because you are ready to use the money for retirement, your child's education, or whatever goal first motivated you to get into equity investing. Then you will be selling for the best reason of all. *Amey Stone*

REASONS TO CASH OUT YOUR SHARES

- Performance is poor relative to similar mutual funds, or to companies in the same industry and sector.
- You lose faith in management either because the company or the fund is experimenting with a new strategy or you sense a lack of candor. A change in a mutual fund's portfolio manager is crucial to monitor.
- The stock price is no longer reasonable in relation to company fundamentals, such as earnings and dividends. Be wary of high debt as a percentage of capital. For mutual funds, make sure the manager abides by a stated "sell discipline" that takes these factors into account.
- External forces are unfavorable. The company's products may be becoming obsolete or its market could be shrinking. As in the case of drug stocks, government intervention is often a good time to clear out of a sector.
- Your emotions are getting in the way. Don't get so attached to a stock or a fund that you won't sell if it takes a dive or never performs to expectations. Also, if you are so worried about a company or a fund that you can't sleep at night, dump it.
- You need to diversify your holdings or adjust for your changing risk tolerance. But the best reason to sell is because you've achieved your goal and want to use the money to retire or pay for a child's education.

DATA: BUSINESS WEEK

Fashion

NEW DUDS FOR MR. AND MS. GREEN JEANS

You may not regard your closet as an environmental hazard, but all sorts of dangers lurk within. Cotton seems natural enough, yet pesticides and toxins such as arsenic go into growing and processing the fibers. Clothes promoted as "nonshrink" were probably treated with a formaldehyde-based resin. The bright dyes on a dress must be fixed on cloth with "mordants," which can contain heavy metals. Demand for the leather in shoes and handbags creates pressure to cut down rain forests for cattle grazing.

Today, however, you can build a wardrobe from environmentally correct components. In addition to organic cotton togs, you can don sweaters spun from soda-bottle plastic, coats and scarves made from resurrected wool discards, and shoes constructed with tire rubber.

Big names such as Patagonia, Esprit, and VF International, maker of Wrangler and Lee jeans, are marketing earth-friendly duds through department stores and such catalogs as L. L. Bean, The Nature Company, and Recreational Equipment. The latest push in eco-fashion is developing technologies to make clothes of recycled materials.

UN-UNCOLA. As the Patagonia catalog says, its PCR (post consumer recycled) Synchilla Sweater bears little resemblance to a 7-Up bottle. But this just-released $85 sweater has its origins in discarded bottles reduced to green and white flakes, melted, then spun into yarn.

Deja Inc., a Tigard (Ore.) company, produces what it calls "footwear with a past"—namely recycled tire rubber, wetsuit trimmings, old file folders and coffee filters, seat cushions, soda bottles, and other materials.

The shoes, which sell for $40 to $65, are colored with organic, earth-toned dyes and are glued together with nontoxic, water-based adhesives.

Since 1990, Espr marketed its "Ecollectio ing materials such as w raveled from old cloth buttons fashioned fro nuts of rain trees—encour farmers to pr the forest. Used ber USA of San F co produces walle belts made of old tubes and scra ber. Capezio Ha in New York purses for $35 made of a rec synthetic leather EEKO. And whe tomers get tire handbag, they turn it to a Capezi for recycling.

Even upscale ers are getting i act. In addition elry from used compute ponents, old gears springs, Remi Rubel Francisco recycles bott to construct dresses r cent of chain mail. Th of such creations? A like $2,000. *Heather*

Smart Money

PLAYING THE ECONOMY'S BUMPS AND STRAIGHTAWAYS

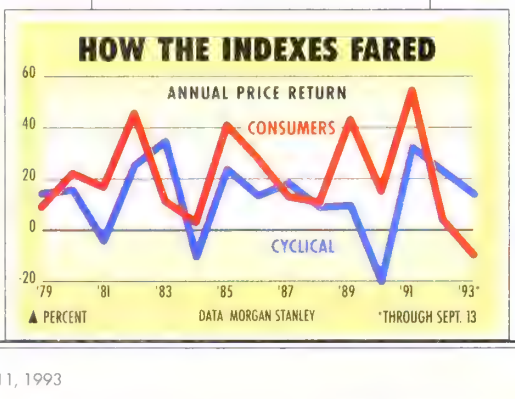
Think you have a pretty good notion of how the U. S. economy will fare? Savvy investors with deep pockets can put their instincts to the test by trading options on a pair of broad market indexes tagged to blue-chip stocks sensitive to economic cycles or relatively immune to the swings.

On Sept. 21, the American Stock Exchange launched call and put options trading on Morgan Stanley's cyclical and consumer indexes. Developed in 1992 and assigned a benchmark value of 200, each contains a basket of 30 stocks. The cyclical index, designed to do well in an economic expansion, tracks industrial heavyweights such as Caterpillar, Ford, and Honeywell. The consumer index—stocks that remain stable in a bumpy economy—is filled with food, tobacco, and personal-products companies such as Gillette, McDonald's, Philip Morris, and Rubbermaid.

A number of index options already exist, covering everything from the Standard & Poor's 100 and midcap stocks to biotechnology companies. By betting on an index, you hope to isolate the trends that will cause the market to move a certain way, without having to be right about an individual stock. Options may also serve as insurance against a decline in stocks you already own, says Bob Gordon, president of Twenty-First Securities, a hedging strategy firm. Investors who took a beating on consumer-products shares might have softened the blow if they were able to buy puts on the consumer index earlier this year.

LIGHT INTEREST. So far in 1993 through Sept. 27, the Morgan Stanley cyclical index is up 14% against a 10% decline in the consumer index. The options on the indexes have expiration dates on the third Friday in ber, November, and D ber of 1993, and Marc June of next year. As AMEX launch, the cycli dex stood at 278.12; th sumer index opene 184.18. You could re buy an October 175 c the latter for a premi 10.25, or $1,025. If the rises to 190 by the date, you would make it of $475. Premiums fluenced by where the is in relation to the price and the amount remaining until the e tion date.

Historically, inv have viewed specializ dex plays with cautio indeed, early institu interest in Morgan Sta two has been light. But experts do see value in Says Bernard Schaeffe tor of *The Option A* newsletter: "I'd take at them if I had a view on those sectors economy." *Edwar*



THE LAST THING THE WORLD NEEDS IS ANOTHER MUTUAL FUND.

[A BETTER WAY TO CHOOSE ONE WOULD BE NICE THOUGH.]

At last count, America had more than 3,000 mutual funds. Obviously, what the investor needs is not more mutual funds, but a better way to choose one. That's why T. Rowe Price would like to suggest a different way of thinking. It's a more enlightened way to measure a mutual fund's success called Risk-Adjusted Performance—an approach that aims to achieve attractive returns with an acceptable degree of risk. Perhaps that's why so many T. Rowe Price funds have earned Morningstar's prestigious four- and five-star ratings. To learn more about the T. Rowe Price family of mutual funds, give us a call at 1-800-541-6619, and ask for our free booklet: "Risk-Adjusted Performance: A Better Way to Judge Performance." It's a better way to measure performance. It's also better performance.

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Collecting

THE PEN IS MORE VALUABLE THAN THE SWORD

Listening to fountain-pen collectors brings to mind the triumph and passion of treasure hunters: Did you hear about the Parker Aztec, engraved with elaborate Indian chief heads? An artist bought it for $55 at a church bazaar and sold it to a Houston collector for $10,000.

The fountain pen is enjoying a resurgence of popularity. While a handful of aficionados travel the world seeking antique, gold-nibbed trophies valued in tens of thousands of dollars, a growing number of penthusiasts enjoy buying collectibles without spending big bucks. The subscription list of *Pen World*, the bimonthly pen fancier's journal ($42 a year, 713 359-4363), has swelled to 28,000 since its launch in 1986. Pen Collectors of America (713 496-2290) has doubled in size in the past year, to 600 members.

People are attracted to collectible pens for varying reasons: nostalgia for bygone eras, pride in the image projected by using a classy writing instrument, and faith that rare pens will rise in value. Serious collectors wouldn't dream of actually writing with their rarest pens but admit they enjoy the compliments a good pen attracts. "It says something when I pull out a neat fountain pen at a deposition," says Stuart Schneider, a New Jersey lawyer and author of several books on pen collecting.

THE PARKER AZTEC PEN (ABOVE) CAN BRING TOP DOLLAR. PARKER'S SERPENT-ADORNED SNAKE PEN IS VALUED AT AROUND $10,000

Valuing writing instruments can be complicated since dozens of brands are deemed collectible. U. S. collectors favor Parker, Waterman, Sheaffer, and Wahl-Eversharp. Overseas, Germany's Montblanc and Pelikan, French makers Cartier and S. C. duPont, and the Japanese Sailor and Platinum are popular.

In the vintage market, pens produced before 1940 tend to be the most valuable. Pre-World-War I pens decorated with ornate filigree; miniature "Peter Pan" pens made to be hung from a cord; fat but sleek pens from the 1920s and 1930s that evoke images of old movies and Ernest Hemingway—all of these can sell for hundreds or thousands of dollars.

In a collector's ideal world, pens would spend decades in the original box rather than banging around in a drawer. "Tooth-marks and engraved initials detract from the value," says Glen Bowen, *Pen World*'s editor. A damaged old pen can regain value if reconditioned with vintage parts. The preeminent first-aid station: New York's Fountain Pen Hospital (212 964-0580).

Rarity and demand also play a big part in value. A Waterman Snake, with emerald-eyed gold or silver serpents twined around the barrel, Parker Aztecs, and the 1924 Montblanc Spider Web, a black pen with a lacy, silver overlay, bring top dollar for rarity: from $5,000 to a stratospheric $40,000. Esterbrooks, though, were never rare. Until the company went out of business in 1971, these pastel, square-topped fountain pens were clipped to every student's folder. Recently, however, they have been in demand as a nostalgia item, pushing prices from $10 to as much as $75.

In response to renewed interest, many pen companies are releasing new limited-edition pens, often modeled on pens they made years ago. Montblanc's $1,600 Lorenzo DeMedici pen, which sold out through advance orders in April, 1992, echoes the ornate filigree of the pre-World-War-I pen. Waterman's $350 Patrician is a remake of a 1929 pen. Ballpoint versions generally go for about half the price of the fountain pens.

Pen shops in big cities are good [illegible] ing place *Golden A* *Writing Instru* by Stuart Schneid- George Fishler [illegible] Schiffer) and *Collectible* *tain Pens* by Glen [illegible] ($21.95, L-W Books) ar [illegible] ful introductory books. your nib wet at annu shows in Washington, L

CLASSY, ANTIQUE FOUNTA PENS ARE ENJOYING A SU POPULARITY. BELOW, PRE-W WAR I PENS DECORATED W ORNATE FILIGREE

geles, go, and Jersey (i ristown, and 10, at the Headqu Plaza Hotel).

New collector pens lose value for a year after release, then their original price and to rise. A good antiq should steadily apprec the end, many collecto as swayed by their he by their portfolios. Say cia Peterson, a Napervi consultant to Montblan feel of a good gold p fine paper is extremely al. You can't get that Bic." *Heather*

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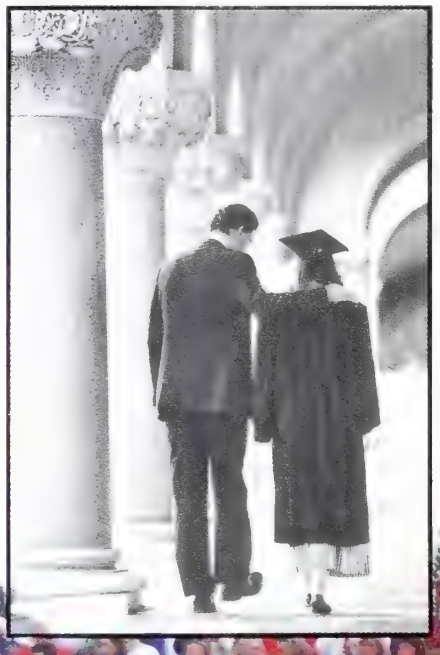
158F-CA

Who will win at THE TOUR Championship? Kids from the Bay Area — that's who!

THE TOUR CHAMPIONSHIP

PREV SCORE		HOLE	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18
	LEADERS	PAR	4	4	4	5	4	3	4	4	3	5	4	4	4	4	3	5	3	4
8	AZINGER		7	6	6	7	7	7	7	6	7	7	7	7	7	7	7	9	9	
5	HUSTON		5	4	5	6	4	4	4	4	4	5	4	4	4	2	2	2	2	
2	JANZEN		2	2	3	3	3	3	4	4	3	3	3	3	4	4	4	5	5	5
2	PAVIN		2	3	2	3	3	3	3	2	3	3	4	4	4	4	4	5	5	
3	FORSMAN		3	3	3	4	3	3	3	2	2	2	2	2	2	1	1	1	1	
2	HAAS		1	1	1	1	1	E	E	E	E	E	1	1	1	E	E	1	1	E
2	FROST		2	1	1	1	1	1	1	E	E	1	1	1	1	1	E	1	1	E
1	FLOYD		1	1	1	E	E	1	E	E	1	2	2	2	2	2	1	1	1	1
2	CLEARWATER		2	2	2	1	E	E	E	E	1	E	E	E	1	1	E	1	2	2
	COUPLES		3	3	2	2	3	3	3	3	3	3	2	1	1	E	E	E	1	1



The grand finale of the 1993 PGA TOUR season will be played in the Bay Area in October with the top 30 players on this year's money list competing for the prestigious title. But the real winners of this season-ending tournament are kids.

The San Francisco Chronicle and THE TOUR Championship have created a program called Youth Volunteers in Action. Twenty high school students each will receive a $5,000 scholarship to attend college. The requirements are simple: at least four weeks of volunteer work with a Bay Area nonprofit community charity, a 750-word essay about that volunteer experience and a 2.75 high school GPA.

Net proceeds from THE TOUR Championship help support this program, along with other charities in the San Francisco area.

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158H-CA

ex to Companies

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a significant reference to a company. Most
es are indexed under their own names.
s listed only in tables are not included.

straus 35
0
ent 120
60, 64
64
line 142
5
2
hty Ducks 144
5
ter 42
ng 64
, 114
60
oete Wedd 120
ties 120
oiling
35
ciates 140
64
g 120
5
nt 36, 144
s 35
0, 51, 60
um 120
Rent-A-Car 51
rities 35
p 60
hone 115
3, 138, 156
64
0
Fund 154
ier & Rice 60
0, 54, 64
ciates 12
3
ons Network
15
142
aceutical 64
es 36

D

Daimler Benz **120, 138**
Deere **38**
Dell Computer **140**
De Longhi **51**
Delphi Internet Services **142**
Delta Consulting **60**
Deutsche Bank **52**
Diagnostek **12**
Diego Della Valle **51**
DRI/McGraw-Hill **51, 52**
DuPont **40**

E

EDS Electronic Data Systems **119**
Electronic Arts **40**
Eli Lilly **60**
EPS Technologies **140**
Espri **156**
Ethyle **64**
Evans Economics **27**
Exxon **64**

F

Federal Express **64**
Federated Department Stores **35**
Fiat **52**
First Colony **64**
First Interstate Bank **143**
Fisher-Price **60**
Fluor Daniel **138**
Ford **32, 40, 52, 119**
Fujitsu **115**
Furman Selz **16**

G

Garber's Travel Service **40**
Gateway 2000 **140**
Gaylord Entertainment **136**
GE **64, 115**
Geja **156**
General Instrument **60**
GEnie **142**
Gillette **156**
Glaxo Holding **120**
GM **16, 52, 64, 138**
Goodyear **60**
Grupo Simec **120**

H

Heinz **54**
Hertz **42**
Home Depot **35**
Honkong & Shanghai Banking **120**
IBM **60, 64, 115, 140, 142**
Infinity Broadcasting **12**
Intel **48, 64**
InterSec Reserch **120**

J

Jaguar **51**
J.C. Penney **35**
J.I. Case **38**

K

Kmart **35**

L

L.L. Bean **156**
Lancaster Group **7**
Leslie Fay **42**
Lionel Corp **35**
Luks Holding **120**

M

Magna Group **136**
Management Horizons **35**
Manpower **120**
MCA **136**
McDermott International **51**
McDonald's **144, 156**
MCI **60**
McKinsey **7, 60**
Mercedes-Benz **52, 138**
Mercury Merrill Lynch **120**
Microsoft **40**
Mitchell **60**
Mitsubishi Electric **119**
Monsanto **64**
Morgan (J.P.) **64, 120**
Morgan Stanley **156**
Motown Record **111**
MTV **111**

N

National Amusements **36**
NationsBank **143**
Nature Company **156**
NEC **115**
News Corp **142**
Nippon Telegraph & Telephone **115**
Norfork Southern **64**
Northern Telecom **115**
Novell **40**
Nynex **36, 115**

O

Odyssey Partners **136**
Old Chisholm Trail **7**
Old Republic International **136**
Oppenheimer **136**

P

Panhandle Eastern **64**
Paramount **35, 36, 60**
Paramount Communications **12**
Parsons **54**
Patagonia **156**
Paul, Weiss, Rifkind, Wharton & Garrison **42**
PepsiCo **60, 144**
Peugeot **52**
Philip Morris **64, 156**
Pillsbury **54**
Pittsburgh Brewing **144**
Pittsburgh Penguins **144**
Porsche **119**
Procordia **51**
Procter & Gamble **42, 54**
Prodigy **142**
Professional Computer Systems **40**
Provident Bankshares **136**
Prudential Securities **136**

Q

Quaker Soup Tambrands **60**
QVC Network **12, 35, 36, 60, 64**

R

Ransatand Holding **120**
Recreational Equipment **156**
Renault **52**
Republic Asset Management **154**
Rich's **35**
RJR Nabisco **60**
Rubbermaid **156**

S

Salomon Brothers **35, 60**
Saturn **138**
SCI Systems **140**
Scientific-Atlanta **60**
Sears **35, 64, 142**
S.G. Warburg **136**
Shanghai Tire & Rubber **120**
Shelby Cullom Davis **136**
Sierra Online **40**
Singapore Telecom **115**
Skis Rossignol **120**
SMH **120**
SmithKline Beecham **42**
Southwestern Bell **36, 120**
Spectrum Holobyte **40**
Star Banc **60**
Stride Rite **60**

T

Taubman Centers **64**
Templeton Developing Markets fund **120**
Tenneco **38**
Texaco **64**
The Gap **35, 120**
The Limited **35**
Time Warner **111, 115, 136**
Tommy Boy Music **111**
Toyota **16**
Toys 'R' Us **35**
Twenty-First Securities **156**

U

Union Bank of Switzerland **26**
Unisys **34, 51**
United Healthcare **64**
Used Rubber USA **156**
U S West **115**

V

Valco **52**
Varity **64**
VF International **156**
Viacom **12, 36**
Volkswagen **16, 51, 52**
Volvo **51**

W

Wal-Mart **64**
Walt Disney **64, 136, 144**
Warnaco **64**
Wertheim Schroder **136**
Westinghouse **60**
William Morris **64**
Williams Telecommunications **115**

Y

YPF **120**

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1A. Title of publication: BUSINESS WEEK.

1B. Publication No.: 080-900.

2. Date of filing: October 1, 1993.

3. Frequency of Issue: Weekly except first issue in January.

3A. No. of Issues Published Annually: 51.

3B. Annual Subscription Price: Domestic $46.95, International $90.00, Elsewhere $90.00.

4. Location of known office of publication: 1221 Avenue of the Americas, New York, NY, 10020.

5. Location of headquarters or general business offices of the publishers: 1221 Avenue of the Americas, New York, NY, 10020.

6. Names and addresses of the publisher, editor, and managing editor: Publisher: John W. Patten, 1221 Avenue of the Americas, New York, NY, 10020; Editor: Stephen B. Shepard, 1221 Avenue of the Americas, New York, NY, 10020; Managing Editor: Mark Morrison, 1221 Avenue of the Americas, New York, NY, 10020.

7. The owner is McGraw-Hill, Inc., 1221 Avenue of the Americas, New York, NY, 10020. Stockholders holding 1 percent or more of stock are: Donald C. McGraw, Jr.; Elizabeth M. Webster; Harold W. McGraw, Jr.; John L. McGraw; William H. McGraw; June M. McBroom; all c/o McGraw-Hill, Inc., 1221 Avenue of the Americas, New York, NY, 10020; College Retirement Equity Fund, c/o Bankers Trust, 280 Park Avenue, New York, NY, 10015; Texas Teachers Retirement Fund, c/o Chemical Bank, 55 Water Street, New York, NY, 10041; Washington Mutual Investors Fund, Inc., c/o The Capital Group, 333 South Hope Street, Los Angeles, CA 90071; Lord Abbett & Co., 767 Fifth Avenue, New York, NY, 10153; Mass Mutual, c/o Concert Capital Management, 100 Northfield Drive, Windsor, CT, 06055; Delaware Group Decatur Fund, c/o Delaware Management, 1 Commerce Square, Philadelphia, PA, 19103.

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9. Not Applicable.

10. Extent and nature of circulation:

	Average No. Copies Each Issue During Preceding 12 Months	Actual No. Copies of Single Issue Published Nearest to Filing Date
A. Total No. Copies Printed	1,188,550	1,174,141
B. Paid Circulation		
1. Sales through dealers and carriers, street vendors and counter sales	61,634	60,500
2. Mail Subscriptions	945,477	942,159
C. Total Paid Circulation	1,007,111	1,002,659
D. Free distribution by mail, carrier or other means samples, complimentary and other free copies	67,559	65,213
E. Total Distribution	1,074,670	1,067,872
F. Copies Not Distributed		
1. Office use, left over, unaccounted, spoiled after printing	5,787	5,147
2. Returns from news agents	108,093	101,122
G. Total	1,188,550	1,174,141

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vestment Figures of the Week

NTARY

ally mixed week in the fi-
narkets. A rally in the
ome market, which briefly
e yield of long-bonds be-
%, propelled stocks up-
Sept. 28. Weaker-than-
d home sale data
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markets stabilized on
Oil-drilling and gold
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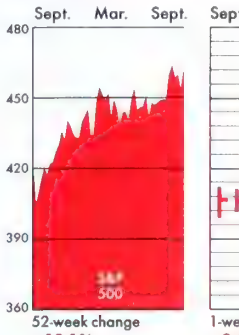
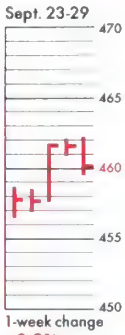
STOCKS

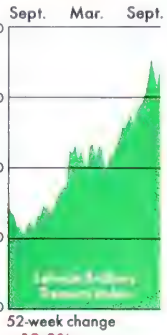


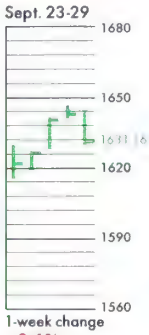


52-week change **+10.1%**

1-week change **+0.9%**

BONDS

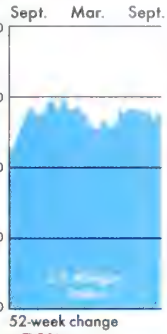


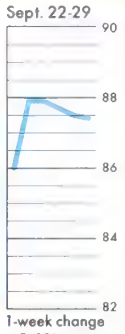


52-week change **+12.3%**

1-week change **+0.6%**

THE DOLLAR





52-week change **+7.0%**

1-week change **+1.6%**

KET ANALYSIS

OCKS	Latest	% change Week	% change 52-week
IES INDUSTRIALS	3566.3	0.5	9.0
COMPANIES (S&P MidCap Index)	175.7	2.1	21.6
)MPANIES (Russell 2000)	251.5	2.0	30.4
PANIES (Russell 3000)	267.4	1.2	13.7

N STOCKS	Latest	% change (local currency) Week	% change (local currency) 52-week
(FINANCIAL TIMES 100)	3030.1	0.8	18.7
IIKKEI INDEX)	20,077.4	−0.5	15.4
(TSE COMPOSITE)	3983.2	0.7	20.8

FUNDAMENTALS	Latest	Week ago	Year ago
90-DAY TREASURY BILL YIELD	2.99%	2.98%	2.75%
30-YEAR TREASURY BOND YIELD	6.00%	6.09%	7.38%
S&P 500 DIVIDEND YIELD	2.71%	2.76%	2.96%
S&P 500 PRICE/EARNINGS RATIO	23.8	23.6	24.5

TECHNICAL INDICATORS	Latest	Week ago	Reading
S&P 500 26-week moving average	449.5	449.2	Positive
Stocks above 26-week moving average	60.8%	57.0%	Neutral
Speculative sentiment: Put/call ratio	0.41	0.50	Positive
Insider sentiment: Vickers sell/buy ratio	2.87	2.73	Negative

JSTRY GROUPS

BRIDGE INFORMATION SYSTEMS INC.

VEEK LEADERS	% change 4-week	% change 52-week	Strongest stock in group	% change 4-week	% change 52-week	Price
UTER SOFTWARE AND SERVICES	9.5	37.1	LOTUS DEVELOPMENT	38.8	143.1	46 1/2
S AND MOTELS	9.2	109.0	PROMUS	11.7	333.0	78 3/4
ONDUCTORS	9.2	126.9	NATIONAL SEMICONDUCTOR	16.0	100.0	21 3/4
Y CENTER BANKS	8.2	53.4	CITICORP	14.8	142.4	37 7/8
:RAGE FIRMS	7.5	85.9	MORGAN STANLEY GROUP	10.1	76.9	88 1/4
VEEK LAGGARDS	**% change 4-week**	**% change 52-week**	**Weakest stock in group**	**% change 4-week**	**% change 52-week**	**Price**
ND GAS DRILLING	−11.3	13.5	ROWAN	−12.7	6.2	8 5/8
S	−11.2	−13.0	INCO	−13.2	−26.0	18 1/8
MINING	−11.0	29.6	HOMESTAKE MINING	−15.8	19.8	16 5/8
NUM	−10.6	1.1	REYNOLDS METALS	−14.2	−9.8	44 5/8
ELL EQUIPMENT AND SERVICES	−7.5	1.3	BAKER HUGHES	−18.3	0.0	22 3/8

UAL FUNDS

MORNINGSTAR INC

S

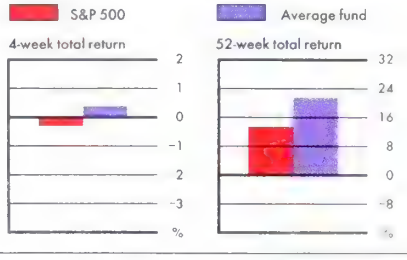
t total return	%
LI VALUE	8.6
GROWTH	7.9
MAN OCEANOGRAPHIC TECHNOLOGY	7.7

total return	%
STON STRATEGIC INVESTMENTS	103.1
GROWTH	99.8
SON OPPORTUNITY A	73.3

LAGGARDS

Four-week total return	%
EXCEL MIDAS GOLD SHARES	−11.2
KEYSTONE PRECIOUS METALS HOLDINGS	−10.9
INVESCO STRATEGIC GOLD	−10.6

52-week total return	%
PILGRIM CORPORATE UTILITIES	−11.3
YACKTMAN	−9.1
INVESCO STRATEGIC ENVIRONMENTAL SERVICES	−9.1



TIVE PORTFOLIOS

DRI/McGRAW-HILL

mounts
nt the present
$10,000
l one year ago
portfolio

ges indicate
total returns

Foreign stocks	Treasury bonds	U.S. stocks	Money market fund	Gold
$13,757	**$12,562**	**$11,389**	**$10,223**	**$10,211**
−0.82%	+2.17%	+1.89%	+0.04%	+0.28%

this page are as of market close Wednesday, Sept. 29, 1993, unless otherwise indicated. oups include S&P 500 companies only; performance and share prices are as of market close

Sept. 28. Mutual fund returns are as of Sept. 24. Relative portfolios are valued as of Sept. 28. A more detailed explanation of this page is available on request

THE NEW NEEDS OF THE MIDDLE CLASS

Thanks to the initiative of the Clinton Administration, the great American health-care-reform debate is now joined. As the battle begins in Congress over providing coverage from first job to retirement, keep in mind that the average American now starting out will probably have half a dozen employers and work at 10 or more jobs before retiring, according to *Workplace 2000: The Revolution Reshaping American Business.*

Globalization of the economy and the downsizing of Corporate America have already helped forge an army of corporate refugees. Instead of 35 years and retirement, managers, professionals, and blue-collar workers can expect a lifetime of job mobility. People find themselves working for a series of employers—large corporations, executive temp agencies, small companies, even themselves. They may shift from big bureaucracies to small teams to individually run startups.

The new job mobility is severing the once solid relationship between health care and employment for much of the middle class. In fact, job mobility is creating new needs that must be met if people are to compete in the world economy. If the employment markets demand they be mobile in their work, then people's health care also must be secured and with them.

And it's not just health care. As people, from Gene X-ers to aging baby boomers, move from job to job, face the prospect of never getting a decent pension. I sions can no longer be tied to lifetime employment, the must be secured in another way.

The list of middle-class needs for prospering in the global economy is complex and growing, and their sol will have to cross traditional Republican and Democrat ological lines. Polls show that for the first time in de people are willing to pay taxes to get government t them secure health care. These same people, howeve want assurances that the government will be efficien not strangle them in regulations and mandates.

The 1990s will see a series of debates played out i gress and across the country. Health-care reform is ju beginning. Pension reform is sure to follow. What is n is the right mix of answers to the new problems of th dle class—problems very different from those of the Democrats and Republicans—on your mark, get set..

TRIPLE JEOPARDY ON THE TRADE FRONT

December is shaping up as a triple witching hour for trade. Congress is scheduled to vote on the North American Free Trade Agreement and fast-tracking the General Agreement on Tariffs & Trade, while the White House is expected to finalize a new results-oriented export agreement with Japan. The stakes are high. With Europe and Japan mired in recession and the U. S. in slow motion, freer markets are needed to spur the weak global economy.

But just weeks before the action starts, there is a serious chance that all three initiatives will go down in flames, boosting the forces of protectionism and isolationism. For an Administration trying to redefine America's foreign policy in terms of economics, failure on this scale would be a big blow.

The Clinton Administration can't help that France and Japan have new governments that are resisting the trade deals their predecessors made. France's new Prime Minister, Edouard Balladur, hates the "Blair House" deal signed with the Bush Administration to cut French farm subsidies and is threatening to walk out and kill the latest Uruguay Round of GATT talks to open markets.

Japanese trade negotiators have warned the U. S that the new government of Japanese Prime Minister Morihiro Hosokawa would have nothing to do with the agreement made between the Clinton Administration and the previous Liberal Democratic Party government. That understanding attempted to create measurable export and market-access targets, patterned after the successful 1986 Semiconductor Agreement that gave foreign companies 20% of the Japanese market. Hosokawa has pledged that he would work for deregulation, open construction bidding to foreigners, a force antitrust laws—but only after new elections i 1994, assuming his coalition wins. Any relief to America's a ing $50 billion trade deficit with Japan will have to w

While France and Japan blindsided Washington on the Administration has only itself to blame on NAFTA White House decision to focus on health care and negle market-opening trade pact with Mexico and Canada November makes passage of the bill in December iffy a Led by Ross Perot and labor unions, anti-NAFTA forces a the country are mobilizing in every congressional dis

Over the next 12 weeks, three initiatives should be to rebuild momentum for free trade. U. S. Trade Rep tative Mickey Kantor should warn the French that re ing the Blair House accord would mean renegotiating t tire GATT agreement, an unacceptable development.

Washington should also make clear to Hosokawa th U. S. has already waited a decade for Japan to redre trade balance. It should insist on moving ahead with r oriented performance targets and remind the new Hos government that backing off from an international de the U. S. erodes its credibility.

While President Clinton has finally become a vocab er of NAFTA, words are not enough. The White Hous mobilize local companies and congressional supporters ry district to bring the message of open markets, g growth, and more jobs to the community level. Time ning out on free trade. A retreat to nationalism and p tionism is the miserable alternative.

"In the downhill, a second can seem like a month." *AJ Kitt*

AJ Kitt is America's premier downhiller. He possesses the uncanny combination of recklessness and discipline required by a sport in which racers routinely exceed eighty miles an hour, and victories are measured in hundredths of a second. "You can't win a major downhill without being a little out of control," says AJ. "The key is going right to the edge without slipping over it."

Initiated into the sport on a 100-foot "bump" outside Rochester, by parents who were part-time ski instructors, Kitt has gone on to medal at the Alpine World Ski Championships in Japan, take a gold at Val-d'Isère, and a silver at Kitzbühel.

AJ knows that the slightest breakdown in technique or equipment can mean the difference between winning and not even finishing. That's why he appreciates wearing a watch that is also well known for its performance under pressure. Rolex.

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RUSSIA

WHAT YELTSIN MUST DO:
N AGENDA FOR ECONOMIC REFORM

PAGE 22

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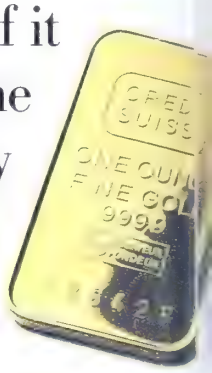

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A NEW SHOW OPENS— AND A PROVEN HIT WINS PLAUDITS

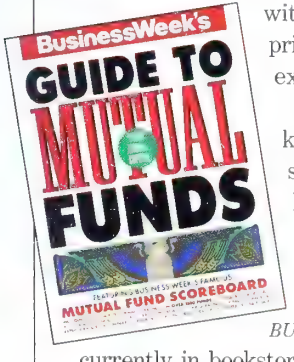
Business doesn't sit still, and neither does BUSINESS WEEK. In recent years, we have continually expanded our coverage, added new departments, brightened the graphics, and revamped our design to keep pace with the dynamic world we cover. With this issue, we add a new spice to the rich mix we offer our readers: Up Front, a two-page section directly following the table of contents.

Capitalizing on BUSINESS WEEK's worldwide resources, Up Front will dish up exclusive, well-reported pieces on business, economics, government, and people behind the news. It will sometimes be irreverent, sometimes offbeat, and always provocative. From corner-office excesses to inside-the-Beltway follies, Up Front will strive to be fresh, sassy, and to the point. (The BUSINESS WEEK Index can now be found on page 103.)

THE UP FRONT BUNCH: PETROW, TILSNER, AND LIGHT WILL LEAD OFF EACH ISSUE WITH A WRY, BREEZY TOUCH

Department Editor Larry Light will oversee Up Front. Larry migrates from a four-year stint as Corporate Finance Editor, where he covered the 1980s' fallout of bankruptcies and other woes. A veteran journalist who came to us from *Newsday*'s business desk, Larry has covered state politics, Presidential elections, and Washington. Aiding him is Assistant Editor Julie Tilsner, who joined us a year ago after picking up a master's degree in journalism at Columbia University. Associate Art Director Jay Petrow brings his distinctive visual flair to Up Front. Jay, who came aboard in 1987, has worked at *Sports Illustrated* and *Time*.

FROM THE DAY WE LAUNCHED IT IN 1986, our annual Mutual Fund Scoreboard issue has been a big hit with readers. Now, we're delighted to find that the Scoreboard, with data-crunching supplied by Morningstar Inc., is similarly prized by the folks who really know mutual funds: mutual-fund executives.



Securities Industry Management magazine polled fund marketers and asked them to turn the tables on fund raters. Of seven publications scrutinized, BUSINESS WEEK earned the highest mark: A−. No other publication came close. Our Scoreboard, says *SIM*, gets "high marks for being an innovator and for solid editorial comment."

Missed the 1993 edition? It's still available as part of *BUSINESS WEEK's Guide to Mutual Funds*. The third edition is currently in bookstores ($14.95) or available directly from McGraw-Hill Inc. at 800 2MCGRAW. For computer users, Scoreboard updates are available as often as every month via the BUSINESS WEEK Mutual Fund Scoreboard on diskette. For more information, call 800 553-3575.

Stephen B. Shepard

Editor-in-chief

CHARLIE SAMUELS

THIS LANDSCAPE HAS EX
AT LAST, THERE ARE EQUALLY

Geologists tell us that the continent of North America was formed 175 million years ago.

High time, then, that two such inspired machines should emerge from the mist. A motorcycle and convertible perfectly adapted to exploring this vast continent.

These are the radically new R1100RS Boxer and the 325i Convertible. High-performance world beaters that make the time zones slip past in a blur of effortless pleasure. With virtues that also blaze forth in a casual trip around town.

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Although both offer compelling attractions fo yearning to breathe free, the 325i has a sleek soft

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Why should you put off such an awesome discovery one more day? 175 million years is quite long enough.

BMW

details, see your Motor Club Benefits Guide. Some benefits not available in all states. Roadside Assistance services provided by Cross Country Motor Club, Inc., Boston, MA 02155.

NUMBER 3341 BusinessWeek OCTOBER 18, 9

BLOODY VICTORY: YELTSIN'S TRIUMPH CAME AT A HEAVY COST, AS TANK, MACHINE-GUN, AND SNIPER FIRE KILLED 150 MUSCOVITES

COVER PHOTOGRAPH BY MIKE PERSSON/GAMMA LIAISON. PHOTOGRAPH ABOVE BY AP WIDE WORLD

Cover Story

22 WHAT YELTSIN MUST DO
His hard-line foes have been routed, but much more powerful enemies remain—inflation and stagnation. Unless the reformist Russian President can stabilize the economy, quell hyperinflation, speed privatization, and stimulate foreign investment, thus consolidating his power, more chaos and bloodshed may lie ahead

26 ARCHITECT OF REFORM
Economic chief Yegor Gaidar vows bold steps to aid foreign investment

28 WITNESS TO A FAILED COUP
A walk through Moscow's streets as Yeltsin outgunned his foes

Top of the News

30 BILL'S RECIPE
The Administration hopes to avoid previous industrial-policy pitfalls by letting business take the lead

32 WHAT COST PARAMOUNT?
Bidders Viacom and QVC are spinning complex webs of alliances that they could later regret

34 CALIFORNIA BRAWLIN'
A controversial ballot measure would give parents vouchers for private and parochial school tuition

36 CONCORDE OR BLIMP?
In a new era of health reform, hospital chain HCA-Columbia must prove that bigger is better

38 THE NEW JORDAN RULES
Michael Jordan will keep on pitching, but the NBA and the Chicago Bulls won't easily replace him

40 DUCKS WITH PUCKS
Can Walt Disney's quack NHL team rehabilitate professional hockey's thuggish image?

42 IN BUSINESS THIS WEEK
Donald Trump's Indian problem, M&A fever, AMD's profit slowdown, the Society-KeyCorp merger, hazardous-waste haulers' woes, Ford's new CEO, USAir

International Business

46 GERMANY
Mega-union I.G. Metall enters an a of smaller expectations, as indust tightens its belt

47 HONG KONG
The Hong Kong market is the gateway for a healthy influx of W Street money en route to China

50 INTERNATIONAL OUTLOOK
Brazil starts to loosen its leash on the economy

Economic Analysis

16 ECONOMIC VIEWPOINT
Kuttner: Management talks marriage but thinks one-night st

18 ECONOMIC TRENDS
The strong yen, a manufacturing forecast, human investment cost the Midwest's productivity payof

19 BUSINESS OUTLOOK
Americans are buying their way back to prosperity

SANDY WEILL'S REVENGE: NOW, HE HAS TRAVELERS CORP.—AND A FINANCIAL CONGLOMERATE TO RIVAL HIS ONETIME EMPLOYER AMERICAN EXPRESS

80 OVERPLAYING THEIR HAND? AS BLACKJACK AND OTHER LEGALIZED GAMING SPREAD FAR BEYOND LAS VEGAS AND ATLANTIC CITY, TOO MANY CASINOS MAY SPOIL THE GAME

72 DIGGING DEEP FOR A DIGITAL FUTURE: FROM PHYSICIANS' WORKSTATIONS TO INTERACTIVE VIDEO, CEO LEWIS PLATT IS PUSHING HEWLETT-PACKARD INTO A NEW TECHNOLOGICAL ERA

Government

WASHINGTON OUTLOOK
The great airwaves auction: A boon for telecom, a break for taxpayers

BRIGHT LIGHTS, WHITE MAYORS
African-American gains in big-city politics are eroding

The Corporation

SAFEWAY'S LOW-FAT DIET
CEO Steve Burd is slashing costs and reducing prices across the board

BROUHAHA IN BURGERLAND
Why Carl's Jr. founder Carl Karcher was ousted by his own board

Science & Technology

THE TRUST THAT ROARED
Wellcome's ample fund is a booster shot for British medical R&D

DEVELOPMENTS TO WATCH
Micromachine, strip mines, power surges, water softener, lab animals

Legal Affairs

"LIKE DYING AND GOING TO HELL"
Details emerge in suits against National Medical Enterprises

Information Processing

HP'S "SECRET WEAPON"
New CEO Lewis Platt aims to create multibillion-dollar markets by crossbreeding its technology mix

People

76 HUGHES BLUES
A laid-off defense engineer lost his pride, and came this close to losing his house and wife

Entertainment

80 PLACE YOUR BETS—FAST
Hungry for tax revenues, states and cities are moving into gambling. But a shakeout is in the cards

82 LOOK OUT, VEGAS
Connecticut's Foxwoods is now the most profitable casino in the U.S.

94 SUN, SAND—AND THE KIDS: WHETHER IT'S DISNEYLAND OR AN AFRICAN SAFARI, TOUR OPERATORS ARE PUTTING TOGETHER CREATIVE PACKAGES FOR THE WHOLE FAMILY

Finance

84 THE CONTRARIAN
While his competitors retrench, Sandy Weill is building a huge financial-services empire

90 INSIDE WALL STREET
Suitors lavish TLC on Caremark
Real points for a real estate play
K-tel tunes in to infomercials

105 INVESTMENT FIGURES OF THE WEEK

Social Issues

91 WHO'S IN CHARGE?
Business worries about Clinton's plan for states to dominate the proposed new health-care system

Personal Business

94 TRAVELING WITH KIDS: A how-to
SKIING: Giving the family a lift
VILLAS: Rent a private paradise
CRUISES: Quality time on the water
RESORTS: Beyond baby-sitters

Features

1 EDITOR'S MEMO
6 UP FRONT
10 READERS REPORT
13 BOOKS
12E2 LETTER FROM FRANCE
103 BUSINESS WEEK INDEX
104 INDEX TO COMPANIES
106 EDITORIALS

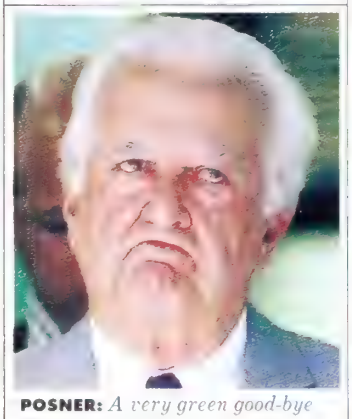
Week (ISSN 0007-7135) published weekly, except for one issue in January, by McGraw-Hill Inc. Executive, Editorial, Circulation, and Advertising Offices: 1221 Avenue of the Americas, New York, 10020. U. S. subscriber rate: $46.95/year; Canada: CDN $69/year. Second-class postage paid at New York, N. Y., and at additional mailing offices. Postage paid at Montreal, P. Q. Canada Post Publications Mail Product Sales Agreement No. 246484. **Postmaster:** Send address changes to BUSINESS WEEK, P. O. Box 430, Hightstown, N. J. 08520.

Up Front

EDITED BY LARRY LIGHT AND JULIE TILSNER

WHEELER-DEALERS

WHY ISN'T THIS MAN SMILING?



POSNER: *A very green good-bye*

Remember Victor Posner? He's the guy who last spring got booted out of ailing DWG Corp., parent of Royal Crown Cola. After shareholders sued, claiming he milked DWG to support other invalids he owned, a judge forced the Miami financier to sell his controlling interest to New York's Trian Group.

Posner, who denies the charge, insisted on a payback for the sweat and dough he put into DWG. Now it's becoming clear how high his price was. For starters, Trian paid Posner $71.8 million for half his stock. There's more, as recent DWG filings show:

- The rest of Posner's stock becomes nonvoting-preferred, paying $6 million a year, a sweet 8.3% yield.
- DWG pays him $13 million to break the remaining three years of its lease at Victorian Plaza, a dumpy Posner-owned building in Miami. Posner critics say DWG never needed most of the space it rented.
- Posner's son, Steven, DWG's former vice-chairman and Trian deal architect, gets a $6 million, five-year, no-show DWG consulting contract. Steven didn't return our calls. ■

GENIUS WATCH

DECODING THE SOFTWARE KING

Bill Gates, chief of Microsoft, is always having to listen to eager pitches from lesser mortals. But Gates's idiosyncratic behavior often makes him tough to read. His rapid-fire questions, for instance, signal nothing. He rattles off the whatifs, whens, whys, and hows whether he likes a proposal or not.

GATES: *Looking interested here*

Gates-watchers say they can tell what the Sultan of Software thinks during a meeting by watching his body language:

- If his hands are in his lap, under the table, he's skeptical.
- If he puts his elbows on the table, he's interested.
- If he covers his chin with his hand, he really likes what he hears.
- When he rocks back and forth, which he does constantly, it signifies nothing. Gates is so full of energy that he can't sit or stand still.

And here's one verbal clue: If he says, "You really expect me to pay for that?"—it's all over. No one recovers from that zinger. ■

TALK SHOW

NAFTA has plenty of warts, and now is humpbacked with these side agreements, but she is the only girl that dances.

— Brink Lindsey, Cato Institut

BALLPARK FIGURES

GO BUY SOME PEANUTS AND COKE AND STUFF

Not all the pitches hurled near home plate this season came from the mound. Over the summer, the American League experimented with electronic billboard ads behind home plate, right where the TV cameras focused much of the time. Hard-core baseball purists were aesthetically outraged when they saw Coke blurbs framing the sluggers at the ballparks of the three teams that tried the medium: the Seattle Mariners, Milwaukee Brewers, and Detroit Tigers.

WINDUP AND PITCH: *Home-plate advertising could become ubiqu*

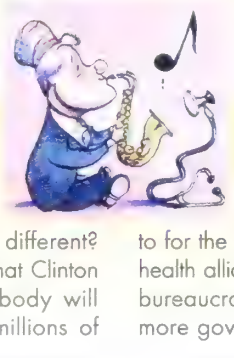
But the teams aren't complaining. The Brewers and the Tigers, who used the new billboards the most, expect $1.5 million in extra revenue this year. That's a nice pie change for them in a tir rising player salaries an some markets, declining a receipts.

But from the TV netw standpoint, this is a scar uation. The cost of flas an ad at Tigers Stadiu about $1,800 for an ave six-minute segment, comp with $5,000 for a 30-se local-TV spot. "This is like advertising," grouses S Kerr, CBS Sports spokes an. CBS and ESPN have ba the home-plate ads—whic be changed electroni throughout the game—d nationally broadcast gam

ABC and NBC, which a over national televising o jor League Baseball fron next April, say they mig open to a deal that allow billboards—provided the a piece of the action.

REALITY CHECK

BILL CLINTON SAYS his health-care initiative would require neither a vast bureaucracy nor much new regulation. It would be a mistake, he says, to use "the heavy hand of government to control what's happening." There will be a seven-member National Health Board to monitor the new st level health alliances, which will collect premiu and monitor medical plans. Also, a federal co mittee will track medicine prices question profit-happy drugma that charge too much. That's all



IN REALITY, government programs have a marvelous capacity to bulk up. Why should the overseer of an industry that makes up 13% of gross domestic product be any different? Remember the national health card that Clinton held up during his speech? Somebody will have to issue and keep track of millions of them. And if seven people on t National Health Board can sc nize those huge new alliance by themselves, God bless them. to for the drug committee. Meanwhile, the health alliances offer a fine breeding ground bureaucrats. Those aren't federal bodies, more government is still more government

CIGNA

For the past few years, we've had a saying at CIGNA: *"We get paid for results."* But for far longer than that, we've had this belief—the more care that we put into what we do, the better those results are. For our customers. And for us. It's not a simple job, of course. Fact is, it's the job of the separate CIGNA divisions to care about what happens to 230,000 businesses, 10 million healthcare members, $32 billion worth of retirement nest eggs for over 5 million people, and on and on. How do we *do* this enormous, complicated job? In thousands of ways, both large and small. By getting checks to storm victims as fast as possible. By using innovative therapies and coverages to get disabled workers back on their feet sooner. By visiting thousands of factories to look for ways our property and casualty customers can prevent tragedies in the first place. Or, just by remembering that on the other end of the phone line is a human being, not a file number. Our commitment to caring, and our efforts to get a little bit better at it every day, are why we have replaced our old saying and symbol with what you see at the end of this message. When you consider what it is that we do, we think you'll agree: it's one result that was inevitable. ***A Business of Caring.***

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HealthCare · Property & Casualty · Group Insurance (Life · Accident · Disability) · Retirement & Investment Services · Investment Management · Reinsurance (Life · Accident · Health) · Reinsurance (Property & Casualty) · Individual Insurance · International (Property & Casualty) · International (Life & Employee Benefits)

Up Front

THE AD GAME

DO YOU VANNA DANCE WITH LAWYERS?

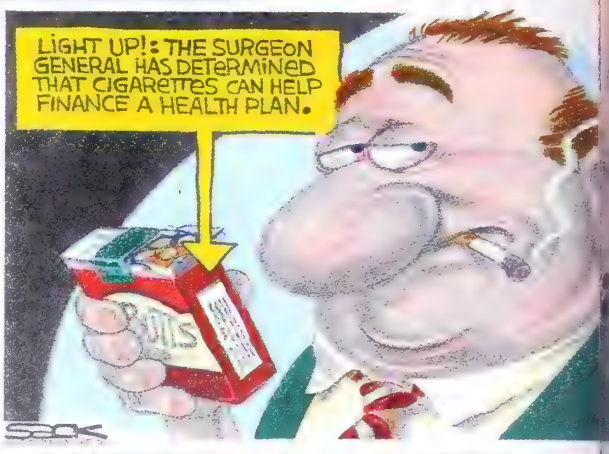
Imitation might be the sincerest flattery, but don't try it on Madison Avenue anymore. Vanna White is suing Samsung Electronics for using her image in a print ad—in the form of a letter-turning blond robot. California, where the *Wheel of Fortune* lady has launched her suit, is one of several states with "right to publicity" statutes. The law bars using celebrity look-alikes or sound-alikes without the celeb's O. K. That's how Bette Midler won a $400,000 settlement when Ford Motor used a bogus Divine Miss M in a voice-over, warbling *Do You Wanna Dance?* in a Mercury Sable commercial.

But the Vanna White case takes things one step further. In the Midler situation, the ad took liberties with her artistic rendering of a signature song. Vanna, who wouldn't comment, argues in her suit that her image is on a par with creative output. Samsung says it didn't intentionally swipe her image. The company recently lost a bid to avoid a trial: One is expected next year.

All this frustrates the Mad Ave. crowd. Ad-law expert Andrew Sacks grouses that the commercials don't "affect the celebrities' ability to market themselves. I wish these people would take a joke." ■

BAD TURN? *White and Samsung's RoboVanna*

DRAWN AND QUARTERED



SLUGFESTS

THE DEBT LOAD IS AT THE END OF THE HALL

Want to know why bondholders are the poor relations of the investing world? Take the hapless souls who checked their money into Marriott bonds. Last fall, the company announced that it would split into a highly profitable hotel operator and a so-so hotel-property owner—and load most of its $2.9 billion debt onto the weaker half's balance sheet. Marriott bond prices subsequently plunged 35%, while the stock surged by about the same amount. So, a bunch of bondholders sued, claiming [illegible] had lost $40 million.

UPDATE

Now, the deal is almo[illegible] to go through, because [illegible] issuers hold all the car[illegible] disputes like this. Marrio[illegible] mollified many of its bon[illegible] ers by shifting some [illegible] debt to the hotel-oper[illegible] arm and exchanging [illegible] paper for new issues p[illegible] one percentage point [illegible] in interest. When to[illegible] bondholders signed u[illegible] the exchange in two c[illegible] of bonds, Marriott [illegible] changed the rules: It [illegible] take less than the 51% [illegible] paper it sought. While [illegible] bondholder suit is stil[illegible] Marriott likely will ge[illegible] cheap in a settlement.

PAPER PLAYS

BETTING TO WIN ON THE BALDIE WINNERS

Stock-pickers know about cyclical plays, growth plays, and sector plays. Now comes the Baldie play, a strategy named after the Commerce Dept.'s Malcolm Baldrige National Quality Award. Sure, some Baldie winners, such as Westinghouse Electric and IBM, have had tough times since their award. So, quality guru Joseph M. Juran wondered recently what would happen if you invested $1,000 in each Baldie winner.

We tried it—hypothetically. With the number-crunching help of the Associates for Improvement Management consulting firm in Peachtree City, Ga., we invested $1,000 in each publicly traded winner from the time the award was announced. Baldie-playing, excluding dividends, yielded a cumulative 89.2% gain. The dogs were more than offset by ace performers such as Federal Express, Motorola, and Texas Instruments. The same bucks invested on the award dates in the Standard & Poor's 500-stock index delivered 33.1%. ■

COMPANY (AWARD DATE)	VALUE ON 9/30/93	CHANGE
AT&T (1992)	$1,217	21.7%
AT&T (1992)*	1,217	21.7
FEDERAL EXPRESS (1990)	1,875	87.5
GENERAL MOTORS (1990)	1,219	21.9
IBM (1990)	372	–62.8
MOTOROLA (1988)	5,423	442.3
SELECTRON (1991)	4,212	321.2
TEXAS INSTRUMENTS (1992)	1,598	59.8
WESTINGHOUSE (1988)	525	–47.5
XEROX (1989)	1,263	26.3
TOTAL	18,921	89.2
S&P 500	13,310	33.1

*AT&T won twice: For its credit cards and for its transmission systems. DATA: ASSOCIATES FOR IMPROVEMENT MANAGEMENT

SNOW BIZ

ROBERT E. LEE HE AIN'T

Cable-TV mogul Ted Turner is married to actress Jane Fonda and is buying two Hollywood studios, New Line and Castle Rock. No surprise, then, that he is about to make his debut on the silver screen. Turner has a five-second, one-line cameo role as a Confederate general in the movie *Gettysburg*, due out Oct. 8 from his own TBS Inc. The flick will have a limited theatrical release—80 screens—and then will air on Turner's TNT network. Says Misty Skedgell, a Turner spokeswoman: "He's a big Civil War buff." You'd ha[illegible] be one, too, to sit thr[illegible] this opus: It's four hours[illegible]

Turner, saber flailing [illegible] helps lead Pic[illegible] Charge, is m[illegible] down by with[illegible] Yankee firer[illegible] unlike his ill-[illegible] attempt to [illegible] the bidding [illegible] Paramount [illegible] munications.

TURNER: *He's a rebel*

Given Tur[illegible] new studios, [illegible] Hollywood [illegible] expect him t[illegible] come a latte[illegible] Alfred Hitchcock, turnin[illegible] often in movie cameos[illegible] spokeswoman Skedgell [illegible] she's "not aware of" any [illegible] er plans for future roles.

FOOTNOTES

Viacom's initial bid for Paramount, 1993: 14% cash, 86% stock. Paramount's bid for Time, 1989: 100% cash, 0% stock.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Readers Report

REAGANOMICS: RIGHT OR WRONG?

In "The world knows that Reaganomics was right" (Economic Viewpoint, Sept. 27), Paul Craig Roberts clings to the Reagan myth like lint sticks to wool. Yes, President Reagan slashed personal income tax rates, and it's true that more people joined the millionaires' club in the 1980s than in any period in our history. In singing the praises of Reaganomics, however, Roberts has completely ignored a gruesome legacy: a quadrupling of the national debt, a dismantling of the middle class, massive corporate leveraging, record numbers of Americans living below the federal poverty level, unprecedented levels of bankruptcies, stagnation in our wages, the S&L debacle, and the transformation of the U. S. from the world's largest creditor nation to the largest debtor.

Jeffrey S. Hurwitz
Warren, N. J.

Paul Craig Roberts laments the alleged march back to Big Government while asserting that Reaganomics worked. Wasn't it Mr. Reagan who borrowed and spent over $3 trillion we did not have? Is this not Big Government?

William A. Smith
Atlanta

This is not economics, it is blind love and faith. An honest Roberts would rename his organization "The Institute for Reagan Worship."

Edward Ferre
Tokyo

THE TEXTILE INDUSTRY WEIGHS IN FOR NAFTA

Regarding "Why NAFTA just might squeak through" (Top of the News, Aug. 30), I was heartened by the headline on the article and horrified by the table, which stated the textile industry opposed it.

The American Textile Manufacturers Institute has been an early and enthusiastic supporter of NAFTA. Some 80 U. S. textile companies are members of USA*NAFTA. The American Apparel Manufacturers Assn., the American a
Spinners Assn., along with ATMI,
belong to USA*NAFTA, as do ma
their member companies.

The people in our company's fact
in Alabama, Georgia, North Car
and South Carolina can manufactur
ric; print or dye it; fabricate it
sheets, comforters, or spreads; pac
it; and send it to customers in M
giving Mexican consumers outsta
value while creating jobs for Amer
NAFTA will benefit our people.

It is a red herring that the te
jobs will flee to Mexico. Any Ame
company that seeks lower labor
can, under Trade Regulation 807, a
ble anywhere in the world and gai
benefit of lower labor costs. If
costs were the only criterion,
would be a manufacturing powerh

NAFTA provides the U. S. texti
dustry with one of the best opp
nities in memory. You can charact
the industry as "very strongly pro

Walter Y. E
Chairman &
Springs Industries
Fort Mills,

THE TAX PERILS OF STOCK FUNDS

Your article "How much are you re
ly earning on your mutual fu
(Finance, Sept. 27) stops one step
of giving a true picture of the tax
one faces buying a stock fund. If
event such as a market correction
to trigger a mass exodus of inves
funds would need to raise cash to
the requests for redemptions by se
securities that would give the best
securities that are selling for more
the fund originally paid—triggeri
capital gain.

For those investors who stay inv
in the fund, there would be two c
quences: The fund is worth less,
the fundholder will have to pay tax
gains from the sale of the securiti
one were to hold just a security
not a fund, taxes on the gain are
when one sells the stock or bond.

In 1987, the year of the market c
I had to pay taxes on the gains fro
underlying securities sold by the

BUSINESS WEEK
OCTOBER 18, 1993 * * * 3341
ISSN 0007-7135

Founder: James H. McGraw (1860-1948).

Building, 1221 Avenue of the Americas, New York, N.Y. 10020

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even though I remained in the fund and the fund was worth less than I had paid.

By being in a mutual fund, the investor needs to realize that the actions of other investors in the fund can affect one's investment.

Jerrold M. Newman
New York

THE NEWTON MAY GIVE APPLE THE LAST LAUGH

Your article covering Apple's Newton ("'My norse 15 critics,'" Top of the News, Sept. 27) strikes me as well-balanced, but I'd like to add a point that's easy to miss when looking at such new technology: A tool itself is neither praiseworthy nor laughable without first considering its specific purpose.

Should we have a laugh at those trying to use the Newton for jotting notes in the field? It looks a bit silly for now. If a tool simply doesn't work as intended, the fun-poking is deserved—and then some. But the laughter may not last.

Could a construction inspector use a Newton-presented inspection checklist to automatically generate a report and set of recommendations? Could police use it to write, print, and transmit tickets? Ouch! The laughter will start to fade if practical applications pay off, and the cost benefits are demonstrated.

Paul Selden
Dearborn, Mich.

HOW MICROSOFT SHOULD LEAD

Regarding "Novell vs. Microsoft: What's behind the hate" (Information Processing, Sept. 27), I work for a leading systems integrator, and I have been very active with the personal-computer department. As a result, I have paid attention to the antitrust probe into Microsoft—and Novell's assistance.

The problem with the whole thing is that it makes no sense; it seems to be a case of sour grapes. How can there be antitrust problems if there are competitive products available from other sources? The problem is the competitors are having a hard time competing.

Microsoft was in the right place at the right time and as a result has enjoyed tremendous success. They make excellent products, price them competitively, and provide good customer support. At times, Microsoft is arrogant and seems to want to be the one stop for all of everyone's software needs. But it has also provided leadership and vision to a developing industry.

If Microsoft were broken up, would there still be a leader with vision in this industry? Would it be Novell, WordPerfect, Lotus, or Borland? Would we have to revisit this issue again in a few years as a company gains dominance and sets the standards that the rest of the industry must follow? The answer is yes. You can't have interoperability and compatibility without some dominant company providing standards and direction.

Microsoft needs to set aside its arrogance and nurture the relationships with other vendors and its competitors. We need "coopetition"—you compete, but you share information that benefits all others and customers. Quit the world-domination mentality and concentrate on world coopetition. Then Microsoft can truly become the industry leader it envisions itself to be.

Chad C. Burdette
New York

THE IRS IS WATCHING YOUR S's AND C's

In "Small Business: Rethinking your tax status" (Personal Business, Sept. 27), you indicate that an advantage of S corp status is that "management compensation is less likely to be disallowed as unreasonable by the Internal Revenue Service," a commonly held belief.

However, it's not a quibble but a potentially devastating problem that an S, which was formerly a C that had accumulated earnings when it switched, must be as cautious as it was before. Reason: To the extent that compensation is found by the IRS to be "unreasonable" and in excess of S profits, it is considered to be a dividend out of previously accumulated (C) earnings and doubly taxed.

Mark I. Wolk
Mark I. Wolk & Associates
Pittsburgh

A COMMUNITY OF COLLEGE AND CORPORATION

The mission statement of the community college has indeed included the academic preparation of students who may eventually transfer to the senior four-year colleges and universities. Our mission statement has recently been supplemented by the business community and community-college liaisons your article "Retooling American workers" (Social Issues, Sept. 27) discusses.

We have recognized that lifelong learning and lifetime gainful employment are absolutely crucial for both personal and corporate economic development. Your article was right on target in this regard.

Wayne A. Drapeau
Professor of Marketing/Retailing
Nassau Community College
Garden City, N.Y.

Your article is right on the mo
Supporters of community coll
have known for years that our sc
are ideally suited to prepare Ame
work force for the global marketp
We're glad to see that the business
munity agrees.

Gary W. L
Executive Dir
Illinois Community Co
Trustees A
Springfield

DESIGN DECISIONS NEED INPUT FROM THE TOP

I was glad to read that superficial
sign is not the fix-all for slumping
("Zenith Data: Good looks may no
good enough," Design, Sept. 27). Ho
er, I think that frogdesign Inc. ma
taking a bad rap in the article, bec
it did not clarify that American cor
tions frequently have difficulty u
standing the role industrial design h
offer in product development. If de
ers are only allowed to have stylin
put to a product, their achievement
only be superficial. Robert Brunn
Apple Computer Inc. is correct in s
good design "has to go deeper into
product and what a product does to
people interact with it," and App
fully behind him in that regard.

My experience is that the highe
the corporate structure that the val
design is recognized, the better th
sign solution benefits the manufact
as well as customer. I don't want to
that industrial design is all one need
a better product, but it is certainly
of the important weights that re
balancing in product development.

Loren D. Stir
Stirling De
Capitola, C

FLORIDA'S CRIME SURE LOOKS LIKE A LOT

Your article "Is it tourist seaso
open season in Florida?" (Top o
News, Sept. 27) on crime and the B
da tourist trade paraphrases Florid
ficials stating "that fewer than 0.5
Florida's 41 million visitors are victi
violent crime."

Wait a minute. Another way of s
the same thing is that the inciden
violent crime is approaching one v
per 200 visitors: That's a lot of cri

Richard Ga
Barrington

Letters to the Editor should be sent to Readers Bo
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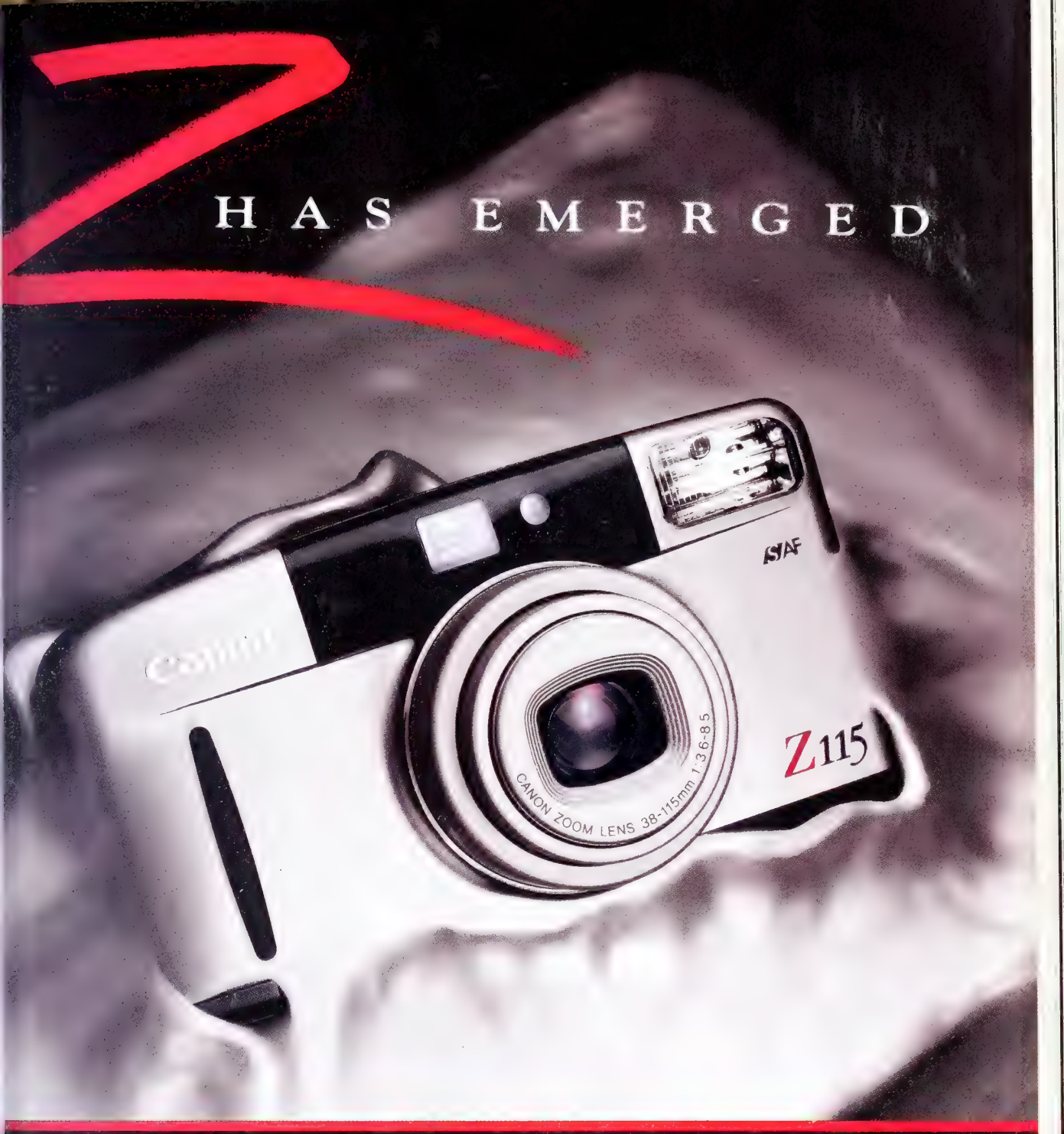
York, N. Y. 10020. Fax (212) 512-4721. All
must include an address and daytime and evenin
phone numbers. We reserve the right to edit let
clarity and space.

Z HAS EMERGED



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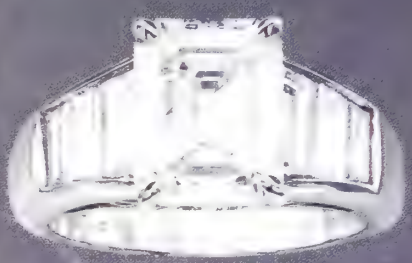
JOURNALIST AMONG THE GYPSIES: BUREAU CHIEF TOY (RIGHT REAR) WITH A FEW OF HIS FELLOW PICKERS AT ST.-EMILION'S CHATEAU PAVIE

A VINTAGE WEEKEND AT THE OLD CHATEAU


It's easy to walk the straight and narrow. But braver to walk down your own path. A shoe that go against the grain of conventionality, the rhythm, the tempo, the colours, that say quite clearly that you
COLE HAAN
what's right for you.

"The first time I gave her a diamond ring she almost forgot to say yes."

I'll always remember that face. The smile bordering on a tear. Silence as powerful as music. Eyes as lively as the diamond I nervously slipped on her finger. And now that we have come so far together, perhaps now is the moment to celebrate that love, once again, with a diamond as exceptional as our love.



Exceptional woman.
Exceptional diamond.

De Beers

Letter From France

hour more: extra zip, I figure, for the 1993 vintage. I'm delighted at noon when someone shouts, "*La soupe*!"—and we break for a two-hour lunch.

Eating macaroni with Rino and Titone outside their trailer, I learn that the *vendange* isn't what it used to be. Many growers have switched to mechanical harvesters, which shake the grapes from the vines. "They pick up snails, toads, and even snakes," snorts Rino—a burly, joke-loving, Pentecostal minister who also sells clothing at outdoor markets in Alsace. "But someday," he says ruefully, "everyone will use machines."

"Not while I'm alive," Valette vows later. Yet son Patrick picks by machine at a small vineyard, Château Musset, that he rents in nearby Montagne-St.-Emilion. And apart from the best vineyards in the region, many Bordeaux growers are switching to machines.

CLIPPER CRISIS. Machine harvesting means that the cobblestone streets of the medieval village of St.-Emilion no longer echo at night with *vendangeur* revelry. In part that's because French students who used to pick—and who led the revelry—no longer come. And hardworking Gypsies go to bed early. There'll be no cheery nights 'round the grape press, either, because the winemaking is over by 7:30 p.m. In fact, there is no grape press; rather, a more prosaic mechanical crusher removes stems, breaks grape skins, and pumps whole fruit into the fermentation vats.

Lunch is hard to leave: Rino pours schnapps and discourses on Gypsy culture. "Governments want us to settle down," he complains. "Next they'll try to stop birds from flying over."

Finally, we leave for a hilltop vineyard, where mud—and schnapps—make picking tough. By now I've bonded with my co-workers and am sticking to their pace. We stop a lot to talk, irritating Rino. I tell a woman she's lucky to work in fresh air instead of an office. "Romanticism!" she scoffs. She's probably right—harvesting grapes doubtless loses its charm after a few days. A cutesy tourist "train" with phony steam engine drives by on a narrow road that winds through the vineyards. It's filled with gawkers who take our picture. I wave, feeling superior.

Then I make my second gaffe. Having stowed a co-worker's clippers in my basket while she takes a break, I realize they're missing—apparently emptied with my grapes. Work stops. Rino says they could destroy the crusher. A foreman jumps in a pickup to warn winery workers. I'm thankful when they find the clippers atop a box of grapes.

That night I'm exhausted but proud of myself. I dine with the Valettes in their *château*, as Bordeaux' big country houses are called. They are wonderful hosts, but I miss the Gypsies. And it turns out I won't see them again. On Sunday morning, the rain returns, and picking is canceled.

RICH HARVEST: 1990 PAVIE COSTS ABOUT $30 A BOTTLE IN THE U.S.

RUBY CASCADE. While it rains, I visit the winery with Valette, who is checking on the first stages of fermentation. Opening a spigot, he holds two glasses under a jet of foamy red juice. The new wine—with no hint of alcohol—is so sweet it dizzies me. "Good color already," says Valette, satisfied.

Sunday lunch, a vast contrast with Saturday's, is a gathering of the Valette clan to celebrate birthdays of grandchildren. At a formal table sit 20 people, devouring huge platters of raw oysters, *blanquette de veau*, cheeses, and custardy *île flottante* for dessert. With wine, of course. We start with Champagne, then move through four different vintages of Pavie. I love the 1982. "Still too young," says Valette. I can't believe him—until I taste the incredibly smooth 1976.

Valette seems jovial. But sitting with his back to the window, he asks Patrick, "Is it still raining?" Then he quickly adds: "Don't tell me." He shrugs. "Nature makes wine," he says. "Man doesn't." A week ago, Valette had hoped 1993 might be one of the best vintages of his career, comparable to 1990 and 1982. Now, he fears that the lack of sun in these crucial last days means 1993 Pavie will be merely "very good." Yet I know that when I uncork my first bottle, in 10 or 12 years, it will taste to me like the vintage of the century.

STEWART TOY

Toy is BUSINESS WEEK's Paris bureau chief.

You have to price three separate issues. And you only get one shot.

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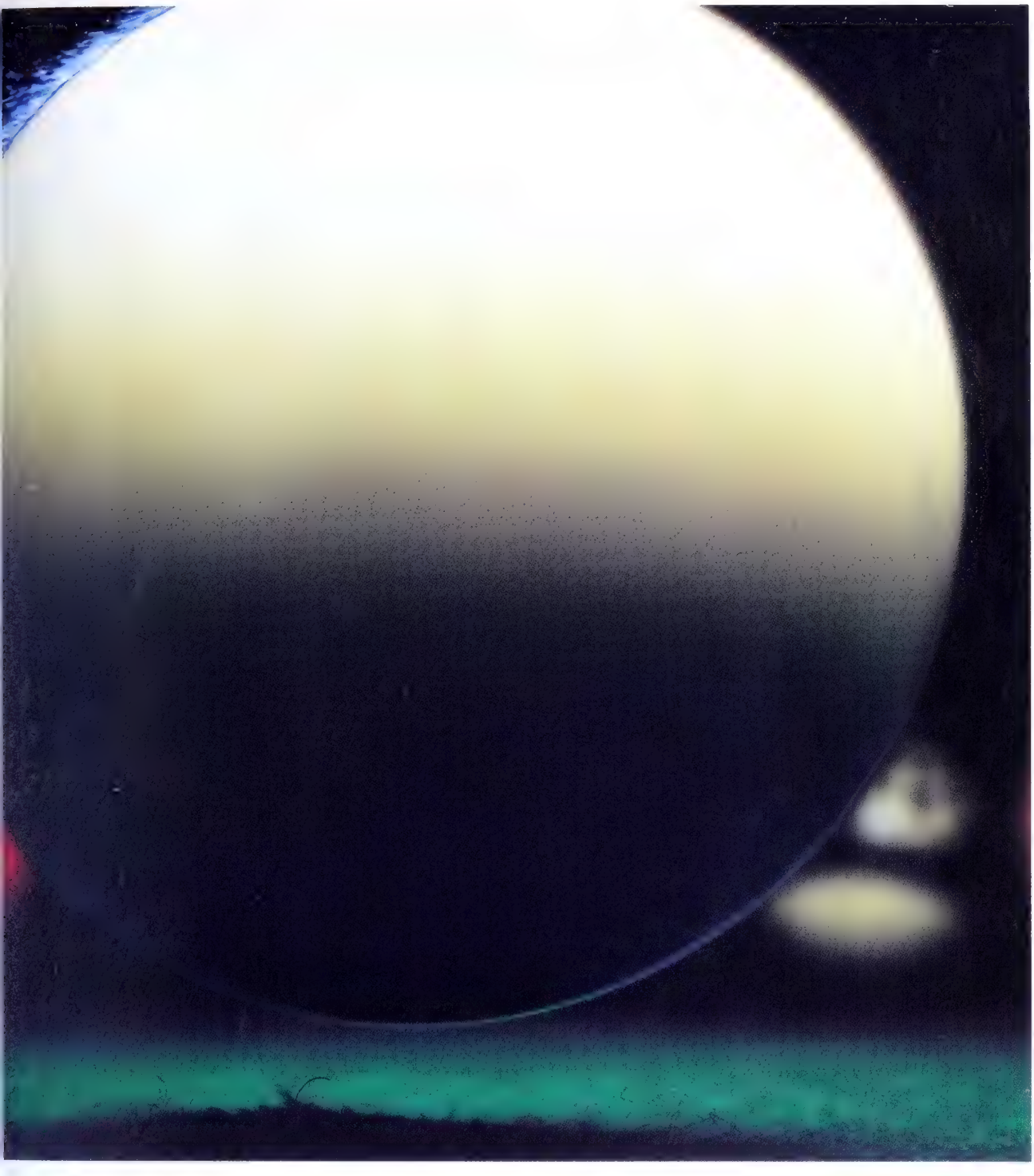
A tall order? This whole venture has been a ta order. First, there was the job of setting up the tender de to bondholders — who had to be convinced that both th new debt issue and IPO would sell. Then there was the sl

Hong Kong Luxembourg Milan



ıding the right investors — ones who would support
:rategy and make long-term commitments. There were
tiations, strategy sessions, and simultaneous road-
's for both the debt and equity markets. All this while
ing your company's day-to-day operations.

But you were prepared. You selected a global investment bank that could bring off this kind of multi-market transaction. They brought you scope, thinking, determination and, above all, credibility with investors.

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IA UNARMED: THE LATIN AMERICAN LEFT AFTER THE COLD WAR
ge G. Castañeda
• 498pp • $27.50

ITIN REVOLUTIONARIES ARN TO LOVE THE SYSTEM

razil's auto industry will produce a record 1.3 million cars this year, helping expand gross domestic ct at a 5% annual clip. What trig- the boom was a pact signed in by the government, auto makers, nilitant leftist metalworkers that ded for tax breaks, lower profit ns for companies, and the holding of workers' wages.

e pact, says Jorge G. Castañeda, s how the Latin American left is ing its style and goals—from con- ation to consensus-building, from forming societies to ning them. In *Uto- harmed*, Castañeda s Luís Inácio "Lula" va, head of the mili- Workers' Party and r-up in Brazil's '89 lential election: "You t need real socialism able to eat, to have "

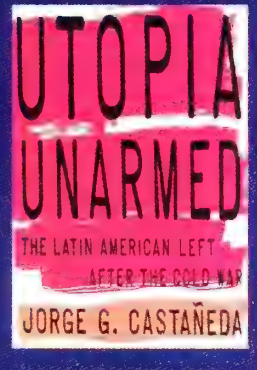
h such adaptations, leftists are in part g a virtue of neces- From Marxists to ate reformers, they been battered by re- ion, by defeat or nate in guerrilla up- s and by the failure nomic policies they sed, such as state ownership of ndustries and protectionism. Free- t regimes from Mexico to Argenti- e having considerable success, as ired by renewed GDP growth.

antime, armed leftists have mostly own their guns to go into electoral s, leaving only a core of Shining Maoists in Peru and a few other bands. Fidel Castro's regime has ken from heroic to pathetic, strug- to keep Cuba's economy afloat.

depicting the left's bleak state, Casa, once a member of a Mexican so- party, clearly has two aims. One is l fellow leftists where they erred ow they should change. The other show a wider audience, including Americans, what makes the Latin ick and where it is heading. His -and-all approach gives his book credibility and readability. It's an tant effort, because in or out of office, leftists will affect the outcome of the shift to free markets—and the U. S. push for closer hemispheric economic ties.

Castañeda, 40, brings unusual qualifications to this undertaking. He's an academic (recently a visiting professor at Princeton University) and a leftist insider—the son of a former Mexican foreign minister and a friend of Cuauhtémoc Cárdenas, head of Mexico's left-of-center Party of the Democratic Revolution. Noted leftist politicians, thinkers, and guerrillas from the Americas to Europe show up as sources in his book. Educated in the U. S. and France, now a columnist for *Newsweek International* and the *Los Angeles Times*, Castañeda is part of what he depicts as the Latin left's new international outreach.

In or out of office, leftists will affect the shift to free markets—and the U.S. push for closer economic ties



His basic message: The Latin left still has a valid mission and an electoral future. The mission is unchanged: to join social justice with democracy and bring millions of people into the economic and political mainstream. But after decades of brutal repression by authoritarian regimes, leftists value democracy and human rights more highly than they once did. And even those farthest left, except perhaps Shining Path, now hope only to reform, not remake, society.

Castañeda makes no forecasts, but it's clear the left will eventually regain some lost electoral ground. That's because benefits of the growth spurred by free-market policies won't soon be felt by large numbers of poor or even middle-class voters. Castañeda points to the wide lead the Workers' Party's Lula holds in the polls over other Brazilian presidential aspirants.

The new Latin left is a reformist melting pot of social democrats, populists, former party-line communists, and ex-guerrillas, says Castañeda. One cause for worry is a growing indifference to parties of any stripe that surfaced last year in Venezuela, where few citizens stood up to military populists who twice attempted coups. But parties such as Brazil's Workers' Party are tapping new sources of support in Latin America's burgeoning "civil society." They are building ties with newly proliferating grassroots groups—human-rights defenders, consumer activists, shantytown improvers, Catholic "base communities"—in a region where power and initiative have always flowed from the top. Says Castañeda: "Power, the left has learned, is . . . everywhere."

One of the most striking changes in the left is the decline of anti-Americanism. No longer seeing the U. S. as a hostile monolith, Cárdenas and other "new nationalists" have been lobbying and enlisting allies in the U. S. among groups that share the aim of stopping the North American Free Trade Agreement. In so doing, they're also trying to loosen the grip of Mexico's political monopoly, the Institutional Revolutionary Party (PRI).

Castañeda exposes some fascinating dirty laundry of the left, such as the apparent suicide of Salvadoran guerrilla Salvador Cayetano Carpio—who called himself Central America's Ho Chi Minh—after factional infighting triggered the ice-pick murder of his female deputy. He also shows nostalgia for the revolution that failed, as in a sketch of "El Guajiro," a Chilean-French revolutionary swashbuckler. And he fires occasional rounds of polemical grapeshot at targets such as Nobel-winning Mexican author Octavio Paz, a former Castro admirer turned conservative. He calls Paz hypocritical for attacking leftists' reluctance to condemn Castro's rule even as he supports Mexico's repressive PRI.

Castañeda's expert reading of the Latin American left's turbulent currents should help readers understand the political ferment that undoubtedly lies ahead.

BY JOHN PEARSON

Senior Writer Pearson was a correspondent based in Mexico City and Caracas.

I take it

"Environmental issues are often controversial. I try to take the politics out of it. I'm an engineer. The solutions I propose are based purely on facts. Technical and scientific facts. To me, governmental agencies or action groups are not the enemy. They ar partners in managing the environment. We n always agree, but we all have the same goal. know I care about the environment, profes

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Mariam Tehrani, Manager of Environmental Affairs Akzo Chemicals Inc.:

rsonally

›nally. I'm not afraid to speak up. When I
ompany listens, because Akzo knows
environmental policy is good business. And
vay to create the right chemistry."

CREATING THE RIGHT CHEMISTRY

AKZO

TALKING MARRIAGE AND THINKING ONE-NIGHT STAND

BY ROBERT KUTTNER

The rush to downsize and replace longtime employees with temps and part-timers makes corporate rhapsodies to empowerment, partnership, and teamwork so much sweet talk

ROBERT KUTTNER IS CO-EDITOR OF *THE AMERICAN PROSPECT* AND AUTHOR OF *THE END OF LAISSEZ-FAIRE*

In attending conferences on U. S. competitiveness, I keep running into two opposing credos. One holds that competitiveness stems from the work force and that higher skills, lifelong learning, and employee involvement are necessary elements in a high-wage economy. You cannot read a book on management or attend a corporate seminar on leadership without encountering exhortations to teamwork, empowerment, partnership, and long-term outlook.

At the same time, Corporate America is in an orgy of downsizing. This new ethic holds that anyone who can be laid off should be laid off. The fever evidently began in the glory days of the hostile takeover. Raiders overpaid for companies and then looked for assets to sell off and people to make redundant in order to raise cash and cut expenses. In recent years, this strategy has become more generalized: Everyone is relentlessly downsizing because the competition is relentlessly downsizing.

A REMEDY. An increasingly trendy concept is the Virtual Corporation. The idea is that a company should have a core of owners and managers, but, to the greatest degree possible, workers should be contingent—temporary, part-time, or on short-term contracts. This gives the corporation maximum flexibility to shift vendors, pare costs, and avoid long-term labor commitments.

Obviously, these two visions of corporate utopia clash. If most of the people connected to the corporation no longer have job security, all the talk about teamwork, empowerment, investment in people, and long-term orientation is a sham. Without a reciprocal commitment by management to a long-term relationship, the employee who buys into the partnership model is being romanced for a one-night stand.

Moreover, a high-turnover economy undermines the promise of high productivity in a macroeconomic sense. In a period of slow growth and perpetual competition to slash labor costs, rising efficiency doesn't translate into high, reliable wages. And it fails to add up to general prosperity, because it denies ordinary people the purchasing power to buy the products. What to do?

One ingenious remedy is proposed by Sidney Harman, chairman of Harman International Industries Inc., former Commerce Under Secretary, and longtime visionary of a new labor-management culture. (Disclosure: Harman is also a friend of long standing and a sponsor of the magazine I edit.) Harman runs a $665 million consumer-electronics company employing some 1,500 production workers in California's San Fernando Valley.

Harman dubs his idea Olé, an acronym for Off-Line Employment. Scrap wood from sp[ea]er cabinets is made into clock faces w[hile] production employs workers that would o[th]wise be idled during downturns. He is ope[ns] outlet stores where temporarily idled pro[duc]tion workers can be employed. Make-or[-buy] decisions are being rethought, and wor[k] being brought back inside his plants. M[or]over, he regularly pulls workers off the [line] and puts them into training rotations.

Olé seeks to create an internal labor b[ank] for periods of slack demand in order to a[void] layoffs. Superficially, this resembles the[ir] miliar notion of seeking new profit cen[ters] ancillary to traditional lines of business. H[ow]ever, Harman's primary goal is not additi[onal] product lines per se, but the creation of a[n] ture of long-term employment. "My thinn[ing] was stimulated because I was fighting ag[ainst] the use of temps. Temps are bad for the e[co]omy; they're unfair and set up a second c[lass] of employee. If people have confidence in t[heir] job security, productivity increases," he s[ays] Harman production workers rotated to [jobs] assignments keep their seniority, health b[ene]fits, and connection to the company. "When [de]mand picks up again, I don't have to tra[in] whole new batch of people," Harman add

As Harman recognizes, no one company [can] entirely escape larger trends. IBM, the quin[tes]sential knowledge company and investo[r in] people, was long famous for a no-layoff po[licy] Now it is shedding some 60,000 workers[be]cause markets and technologies changed, [and] Big Blue was slow to adapt. Ironically, IB[M's] newest subsidiary, Ambra Computer Cor[p.] the ultimate Virtual Corporation, with f[ew] than 100 core employees.

PUBLIC SERVICE. To restore a culture of m[ut]al commitment, Harman proposes that p[ub]lic policy create more job buffers both for ind[ivid]ual companies and for society generally. [For] example, government could create a ban[k of] public-service jobs and retraining slots. Co[m]panies that wished to follow the Olé model [could] place temporarily idled employees in such [jobs] or slots but continue paying benefits and [con]tinue the worker's long-term affiliation [with] the employer. The unemployment-insuran[ce] program could be converted from one [that] pays people to be idle to one that subsidi[zes] both the lifelong upgrading of skills and p[ub]lic service. It would help if macroeconomic p[olicy] emphasized full employment.

These strategies collide head on with [the] current corporate zeal for getting rid of wh[ite-]collar workers. But it is difficult to imagine a culture [of] mutual commitment when everyone is a tra[ns]ient. We need more CEOs to pay attention. O[r t]o Harman.

A promise not to act like your father between the hours of 9 and 5.

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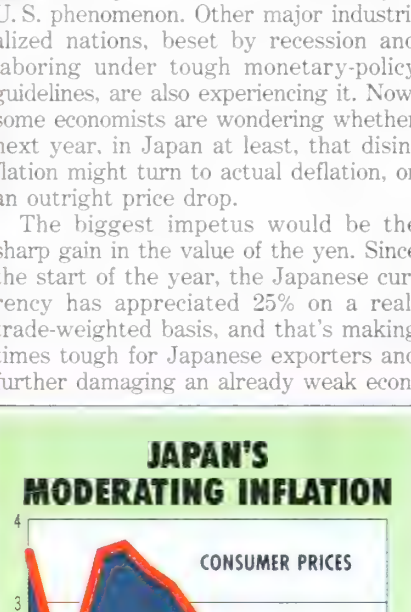
BY KAREN PENNAR

THE MUSCULAR YEN COULD CRUNCH THE GLOBAL ECONOMY

Disinflation—a decline in the rate at which prices rise—is not merely a U. S. phenomenon. Other major industrialized nations, beset by recession and laboring under tough monetary-policy guidelines, are also experiencing it. Now, some economists are wondering whether next year, in Japan at least, that disinflation might turn to actual deflation, or an outright price drop.

The biggest impetus would be the sharp gain in the value of the yen. Since the start of the year, the Japanese currency has appreciated 25% on a real, trade-weighted basis, and that's making times tough for Japanese exporters and further damaging an already weak economy. By one rule of thumb, says William P. Sterling, international economist at Merrill Lynch & Co., this appreciation has a contractionary effect equivalent to a 500 basis-point rise in short-term interest rates. Japan's growth typically slows after a sharp rise in the real exchange rate, and Merrill Lynch economists, who had forecast a 1% gain in real gross domestic product this year, now expect no growth in 1993 and a 2% gain in 1994.

JAPAN'S MODERATING INFLATION



▲ PERCENT CHANGE FROM A YEAR AGO *FOURTH-QUARTER ESTIMATE
DATA: DRI/McGRAW-HILL, BUSINESS WEEK ESTIMATE

Monetary and fiscal policy aren't coming to the rescue. The official discount rate is now at a record low of 1.75%, giving the Bank of Japan little room to ease further. And Japan's money supply, says Edward S. Hyman, economist at ISI Group, is growing at a paltry 1.6% annual rate, suggesting that a mild contraction in nominal growth may occur in the final quarter of the year.

Recent emergency fiscal measures, meanwhile, are deemed too mild to stimulate growth. Sterling warns that the potential for deflation and rising real rates could derail next year's expected recovery. And if Japan fails to grow, that will slow growth worldwide.

THIS SURVEY SAYS ASSEMBLY LINES MAY SPEED UP A BIT

A new monthly economic index points to a small improvement in the outlook for U. S. manufacturing. The business-outlook index produced by the American Production & Inventory Control Society in Falls Church, Va., and Evans Economics Inc. rose to 51 in September from 48.6 in August. The biggest boost to the index came from an unusually low reading for the inventory/sales ratio, which suggests that future production will have to pick up to meet orders. The new index, which incorporates information on shipments, employment, orders, and production plans, is based on confidential survey responses from about 100 manufacturing companies.

HUMAN CAPITAL: ONLY MEGABUCKS WOULD BRING REAL RETURNS

Although the issue seems to have been placed on the back burner for now, raising public and private investment in human capital remains a key objective of the Clinton Administration. Over the past 15 years, real, or inflation-adjusted, wages for men have deteriorated, and the rewards to education and skills for both men and women have risen. The evidence has convinced scores of economists and policymakers that money must be directed toward education and training to raise incomes and productivity in the U. S. But how much might a comprehensive effort to raise skills and incomes cost?

An investment in human capital is generally assumed to yield an average return of about 10%. That is, to add $1,000 per year to an individual's earnings, it is necessary to make a one-time investment of $10,000 in that person. Following this assumption, Professor James J. Heckman of the University of Chicago calculates that it would require an investment of $284 billion simply to restore male high school dropouts to their 1979 real incomes. A more ambitious goal—to restore the income differentials that prevailed in 1979, before skill differences began to make inc more unequal—would require an in ment of more than $2 trillion.

President Clinton's failed $16.5 b stimulus package, says Heckman, w have gone less than 6% of the wa ward restoring high school dropou their previous positions in the labor ket. Clearly, the staggeringly hig vestments necessary to make a d ence in raising human capital unlikely to be undertaken with p monies. The private sector may ha take the lead in selecting and fina the best programs for training wor

A PRODUCTIVITY PAYOFF FROM NEW MACHINERY

While many economists and p makers are convinced of the portance of investing in human ca investment in machinery remains a ically important route to improving ductivity. Numerous recent acad studies have made this point; now gional study by economists at the Fe al Reserve Bank of Chicago de strates that the recent takeo Midwest manufacturing productivit be traced directly to significant mo ization efforts in several key indust

In the early 1980s, the regio sponded to competitive pressure by ing old plants and retiring its least ductive capital. This downsizing typ gives productivity an immediate b but provides no basis for sustained provement. By the latter half o decade, though, Midwest manufactu began a push to invest in new eq ment and machinery. In fact, bet 1986 and 1990, economists at the Ch Fed say, average capital expenditur worker in the Midwest was 9% a the level elsewhere in the nation.

And while the region contains a l proportion of capital-intensive indus notably autos and steel, the autho the study found that the differenc tween investment per worker in Midwest and in the rest of the n "does not appear to be due to differ in industrial mix." For instance, bet 1986 and 1990, investment per work transportation was 16% higher in Midwest than in the same sector where, while in primary metals, it 22% higher on average. Manufacture the region improved efficiency by more than corresponding sectors in rest of the nation. "Given the cap intensive nature of most Midwest in tries and their relative maturity, su gain is substantial," the authors sa

Call to the CARIBBEAN

An Executives Guide to Corporate Meeting & Incentive Trips

t's our second year at Peter Island," says Douglas E. Savery, CEO of Polar Communications Corp., who just treated 25 of his top ales performers and office taff to a week at the luxurious resort in the British irgins. "We brainstorm at wo-hour sessions in the ıorning. After that, a lot of ur people go scuba diving.)thers fish or sail. And ıen all of us will take out a ay or two to visit other lands — like Tortola here we eat at the Sugar Mill Inn, to my mind, the est restaurant in the aribbean," adding, "It's orth every penny of the 70,000 or so we spend. 's bonding in a relaxed, ifferent setting."

For Polar Communications nd the rest of Corporate merica, the Caribbean is a ewly discovered meeting-nd-incentive paradise, ɔ close you can almost fall ut the back door and be ıere. *American Airlines* 300/433-7300), with half of ıe area's "lift" capacity, is ow all over the map with onstops or quick connections at its San Juan hub.

Holland America's classy Westerdam drops in at St. Thomas to let corporate achievers shop for duty-free booty.

For many companies, the newest kick is to go cruising. With a fleet of a hundred or so ships on call, from floating mega-palaces to boutique boats, you can sail away into the Caribbean sunset and in and out of pirate ports.

Tracking Trends

"A company that spent $10 million on incentives in 1990 may lay out half that amount this year," says Jim Huff, director of incentive charter sales and service at Holland America's elite Windstar Cruises. "But they don't cut the quality of their program. They'll still go the exotic route in the Caribbean. They'll simply book it for fewer nights."

"Incentives groups are smaller but more deluxe," adds meeting-expert Connie Goldstein. "You put your money on the best players."

Stung by cruise competition, resorts are enticing customers with "all-inclusive rates" to help minimize out-of-pocket expenses.

With so many ships and resorts to choose from, the trick — as with buying a suit on Savile Row — is to cut the cloth to fit the customer.

- What kind of group are you taking to the Caribbean — senior executives or live-it-up salespeople?
- Will they mostly settle for business golf?
- Or would they prefer a cruise ship with fine dining

and chic gambling?
•What about splitting the trip with both land and sea segments? (It's done.)

Chain Links

Instead of betting on an unfamiliar resort, many meeting planners like to book hotels they know, from Hilton to Wyndham. Here are some prime choices, mostly (but not entirely) resorts run by the chains.

Puerto Rico: This is a festive year for the big, sunny island — its 500th anniversary (on November 19) since Columbus discovered it on his second sailing to the New World.

Where's the action? Built in 1948 between old San Juan and the glitzy Condado area, the *Caribe Hilton* (800/445-8667) has ingeniously kept its youth. But the king of the corporate castle in Condado is *El San Juan Hotel & Casino* (800/223-8800), which doesn't let its size get in the way of providing terrycloth robes, Roman baths, and a lavish gambling den.

If you're a golfer, nirvana is close at hand west of San Juan at a two-in-one extravaganza:
•The sophisticated *Hyatt Dorado Beach* (800/ 228-9000), created in the '60s by Laurance Rockefeller on the seaside grounds of a grapefruit plantation — with two 18-holers and, as one of many extras, a lavish Sunday champagne brunch.
•The jazzier *Hyatt Regency Cerromar Beach*, only a short shuttle-bus ride away, with two more golf courses

It's soft sand, a turquoise sea, and towering palm trees for hazards when you golf at the Hyatt Regency Cerromar.

and the "longest freshwater swimming pool in the world."

Opening in October is the magnificent *El Conquistador* (800/468-8365). Perched on a seaside cliff at the northeast corner of the island, it has every last amenity, from personal pickup at the airport to exceptional villas and meeting rooms.

Virgin Islands: Marking the entrance to St. Thomas' busy Charlotte Amalie harbor is the massive *Marriott's Frenchman's Reef Beach Resort* (800/228-9290) — a cornucopia of facilities including seaside bedrooms, a hilltop pool, nightclub, conference rooms, a helipad, and excursion boats. If you want to beach it, take the elevator down to Frenchman's sibling, *Marriott's Morning Star Beach Resort*.

Near Red Hook, on the east coast of St. Thomas, is the new, lovely *Sugar Bay Plantation Resort* (800/465-4329), a Holiday Inn Crowne Plaza property that offers A-to-Z pleasures.

At Pineapple Beach on Water Bay is *Stouffer's Grand Beach Hotel* (800/325-5000). A showplace designed for conventioneers, its low-slung rust-colored buildings sprawl over the sands and hillside.

Closed for several years, the *Carambola Beach Resort* (800/333-3333), which climbs from beach to hilltop on St. Croix, is back in business under the Radisson flag.

Bahamas: "When you take a group to the Bahamas, one of the big benefits is the variety of islands you have to choose from," says Brent Symonette, Minister of Tourism and chairman of the Council of Ministers of the Caribbean Tourism Organization.

"Whatever your needs—snorkeling, diving, golfing, tennis, conference rooms—we'll provide them," adding, "The new Bahamian government is upgrading older resorts and encouraging new ones like the Hyatt and Marriott on Eleuthera."

Cross the steep little bridge from Nassau, with its spit-and-polish British atmosphere, to Paradise Island, where a casino lifestyle prevails, and you're suddenly in a corporate world of fun and games.

The towering, balconied *Sheraton Grand* (800/325-3535) has the works — even a ballroom with enough fluff to soften the harder edges of

"I'm sorry, e's in a meeting right now."

The board of directors, groups up to 800, the perfect incentive. There's one answer for all: the United States Virgin Islands. In addition to being the American paradise–golfing, sailing, nightlife–there's the added plus of total exemption under the Tax Reform Bill. For details, contact our Groups & Incentives Manager: USVI Division of Tourism, P.O. Box 6400, St. Thomas 00804. 809/774-8784, Fax: 774-4390.

St.Croix St.John St.Thomas
The American paradise. United States Virgin Islands

any corporate meeting. And as you drive through the dripping tropical foliage of Paradise Island, behold, the *Holiday Inn Pirates Cove* (800/465-4329) attractively arranged for partying at its waterside Bonny Anne, a pirate ship converted into a 90-foot bar.

On Grand Bahama Island, it's an Arabian-night experience in the splendiferous comforts and blackjack-to-roulette casino at the *Bahamas Princess* (800/223-1818).

Nevis: A sleepy dot on the Caribbean seascape, Nevis has come awake with the arrival of the *Four Seasons Resort* (800/332-3442 or 809/469-1111). With its shakedown cruise over, the resort is now a model of prompt, gracious service and crackerjack cuisine (seared lamb loin, poached lobster medallions) — all taking place on a former coconut plantation under the brooding eye of Mount Nevis.

Jamaica: In Jamaica, where reggae and rum add a powerful lilt to a country of jungles and mountains, one top executive resort is the secluded *Radisson Ciboney* (800/777-7800) at Ocho Rios. It features a rather formal plantation-style "great house," coupled with individual villas and pools.

Grand Cayman: For a country club in the Caribbean, nothing has more fizz than the *Hyatt Regency Grand Cayman* (800/223-1234), dolled up in white and graced with a superb Jack Nicklaus course. It's what you might expect on an island where international

Talk about getaways? Try the Caribbean cuisine and peppy catamarans at the posh Four Seasons Resort on tiny Nevis.

bankers like to park their money — with a British tradition right out of Belgravia.

Barbados: Cricket, horse racing, afternoon tea, a police band on parade — Barbados is a colorful custodian of British traditions.

If you're looking for a meeting enclave off by itself, *Marriott's Sam Lord's Castle* (800/831-1000) — the name comes from its historic 19th century mansion where you sign in — provides all-in-one activities in a 72-acre tropical community blessed with a beautiful, long beach.

New to the so-called Gold Coast of Barbados, following a long run on Antigua, is the *Pineapple Beach Club* (800/345-0271) where life is laid-back, casually elegant, and all-inclusive when it comes to paying the bill.

Aruba: Just off the coast of Venezuela, Aruba, one of the Dutch ABC islands (the others are Bonaire and Curacao), has two major lures: guaranteed sunlight and great casinos.

Pools, falls, gardens, and waterslides give a sporty look to the state-of-the-hotel-art *Hyatt Regency Aruba Resort & Casino* (800/223-1234). Next door is the recently remodeled *Americana Aruba Beach Resort & Casino* (800-447-7462) with a new wing, a fantasy pool, a sizzling cabaret, and water sports, from scuba to windsurfing.

Cruise News

"You can buy the cruise experience for generally less than a land vacation," says Lisa Lutoff-Perlo, Royal Caribbean Cruise Line's director of incentive sales.

Whether brand new or renovated grande dames, cruise ships — embellished with cabin VCRs and other electronic dodads — are now targeting the corporate market with special facilities and services for business groups.

- In a design breakthrough, hotelier *Radisson International* (800/333-3333, press 5) has taken the classic double-hulled catamaran and turned it into the Radisson Diamond, an all-suite corporate yacht for 354 passengers.
- *Holland America Line* (800/426-0327, 800-426-0329 for groups), steeped in the Dutch tradition of high-quality seamanship and specializ-

ing in dazzling artwork afloat, has, of course, the stately, handsome Rotterdam for nostalgia cruises, as well as the Niew Amsterdam and Noordam out of the '80s. This year's entrants, the look-alike Statendam and Maasdam, fit the executive mold, from dressy dining rooms to sumptuous staterooms and suites.

• At *Norwegian Cruise Line* (800/327-7030, press 2) the big news is the debut of the Dreamward and Windward, both models of good taste One nice extra: Both NCL newcomers have four rather than just one dining room — if your group is large enough, you can have a whole restaurant to yourself with a terrace, pool, and sundeck.

• *Costa Cruises* (800/462-6782, 800-662-6782 for groups) is adding the posh Costa Romantica, a twin of its recently introduced Costa Classica, to its Caribbean fleet of meeting-and-incentive palaces. The line's style is still con brio, meaning "lots to do," and that includes enjoying cucina italiana.

"Our conference centers are right in the middle of our public areas," says Costa's Jennifer Lawrence-Schott. "You don't feel you're going down to the bottom of the ship to work and then back upstairs to have fun."

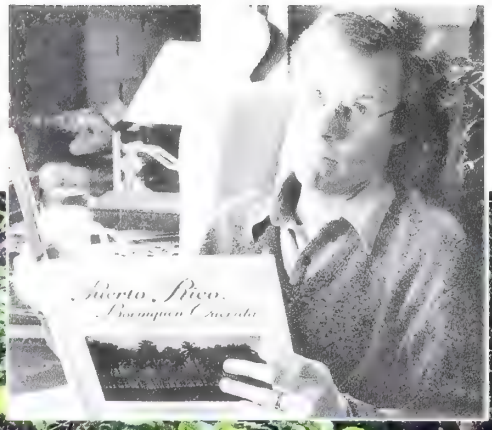
• The new Royal Majesty run by *Majesty Cruise Line* (800/532-7788, press 2) caters to corporate meetings with a House of Lords Conference Center and other executive trappings. And the cruise ship is one of the first to prohibit smoking in its dining room and some cabins.

• *Cunard* (800/221-4770, press 4), a blue-chip name in cruising, has something for every segment of the upscale Caribbean market: the Queen Elizabeth 2, the smaller, white-gloves Sagafjord, Vistafjord, and Princess, and the champagne-and-caviar Sea Goddess I and II. And just this season Cunard is introducing the Crown Dynasty.

Making Waves

Brand loyalty is strong among cruise passengers. Here are some top cruise lines that get raves from thousands of regulars. The rates are about $250 a day per person.

• *Royal Caribbean Cruise*



"I could really use a vacation wi

You can find yourself living an exciting nature travel experience in the El Yunque Rain Forest with its 28,000 acres of wonder, mystery and incomparable beauty. Explore the winding trails of the only tropical rain forest in the U.S. National Forest System and be amazed by its more than 240 species of trees, flowers and wildlife.

And there's so much more to discover. All of it, within easy reach. Stroll through the shady gardens of Casa Blanca, the 16th Century home of Ponce de León, in historic Old San Juan.

DISCOVE*the* CONTINEN*of* PUERTO RICO

e life instead of just reading about it."

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an, 3 1/2 hours from
and New York, and
s *from Miami.*

And it's so incredibly convenient. As part of the United States, no passport is needed. The money we use is U.S. currency and English is spoken here.

You'll feel right at home, but you'll be enjoying all the many different wonders of a tropical paradise.

Only a continent could offer so many great vacation experiences.

only

PUERTO RICO

PUTS IT ALL WITHIN YOUR REACH

For additional information, call your travel agent or

1-800-866-7827

Line (800/327-6700, 800/722-5470 for groups) is a standout for the elegance and efficiency of its ocean liners, from the Song of Norway to the Sovereign of the Seas. Two of its best and brightest — and largest — in the Caribbean are the Monarch of the Seas (San Juan to Barbados) and Majesty of the Seas (Miami to Cozumel).

• Incentive groups have a romp aboard the fun ships with fun names, from the Celebration to Fantasy, operated by *Carnival Cruise Lines* (800/327-7373, 800/327-5782 for groups). The newest additions to its fleet are the Fantasy and the Sensation.

• The "Love Boat" image plays well with incentive travelers who sail on the Crown Princess, Regal Princess, and Star Princess — all huge, sleek ships of 63,000 to 70,000 tonnage operated by *Princess Cruises* (800/421-0522). "They're unique," says the cruise line's Julie Benson. "They carry only 1,000 to 1,500 passengers — and we don't have tiny little cabins."

• With a high-tech silhouette and haute cuisine masterminded by internationally acclaimed chef Michel Roux, *Celebrity Cruise Lines'* Horizon and Zenith (800/395-2300, 800/423-2100 for groups) pamper corporate passengers.

Titian Trips

It's not all that rare for companies — and that includes smaller fry — to go out and hire the 100- to 150-passenger limos of the ocean for a serious meeting, incentive, or party. When you've bought the whole ship, you choose the coves, beaches, deep-dive locales, and other places where you want to anchor. Here are some leaders among the elite fleet of yachts that recreate Gatsby's world on the water.

• Aboard Sea Goddess I or II, stars of *Cunard* (800/458-9000), you dine when you want, order meals or high tea or cocktails from room service, slim down in the gilt-edged spa, and slip off into a life only a novelist could invent.

• Ex-Royal Viking Chairman Warren Titus launched *Seabourn Cruise Line* (800/351-9595) in the late '80s with two gorgeous cruisers —

Classic Resorts

Some of the most mouth-watering meeting and incentive resorts are classics with staying power.

• Barbados' *Sandy Lane* (800/223-6800) wows the Palm Beach and Palm Springs crowd with its good taste and top golf course.

• At Jamaica's Montego Bay, *Round Hill Hotel & Villas* (800/237-3237), *Half Moon Golf Tennis & Beach Club* (800/626-0592) and *Tryall Golf, Tennis & Beach Club* (800/336-4571) are class acts, complete with rich-and-famous guests, service out of the days of the British raj, and tournament golf.

• On St. Martin, the newly freshened *La Samanna* (800/854-2252) is just right for a small upper-echelon group that likes to talk in whispers, dine on French cuisine, and keep its tennis whites clean.

• *Jumby Bay* (800/421-9016) is an Antiguan gem now owned by the Marianis of Villa Banfi wines.

• On BVI's Virgin Gorda, an isle of boulders, beaches, and botanical surprises, *Little Dix Bay* (800/223-7637), a former Rockefeller resort that's now a Rosewood (Mansion on Turtle Creek) affiliate, continues to attract senior executives who like to mix business and leisure.

• A&P heir Huntington Hartford made Paradise Island's *Ocean Club Golf and Tennis Resort* (800/321-3000) into the colonial-style mansion it is today — with a pool in the Versailles Gardens and a graceful Augustinian cloister.

eabourn Pride and
eabourn Spirit — fitted
vith all-outside suites, walk-
n closets, spacious marble
aths, and one crew mem-
er for every two passen-
ers. It's Bel-Air on a boat.

Not to be outdone, *Royal
iking* (800/426-0821),
hich likes to talk about the
unabashed euphoria" and
elegance unsurpassed"
board its ships, bought the
lueprints for a third
eabourn and created its
wn Royal Viking Queen
ist for top-level executives.

From *Windstar Sail
ruises* (800/258-7245)
omes a one-upmanship
ybrid — the computer-con-
olled Wind Star (and sister
hips Wind Spirit and Wind
ong on Tahitian and South-
ast Asian routes). It's a
uxurious sailboat, with soft-
are to guide its progress,
utomatically furling and
nfurling sails in two min-
tes and kicking in engine
ower when needed.

Renaissance Cruises
800/525-5350) takes meet-
ng and incentive charters
ut of Antigua on its classy
enaissance II and VI yachts.
ou can enjoy a buffet of
orts when anchored at
laces like Anguilla and St.
itts. And their mirror-and-
arble decor feel like J.P.
lorgan — affluent in the
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As Polar Communications'
avery puts it, "Our top
alesmen want something
ifferent they might not
o on their own. Like one
eek in paradise. That's the
aribbean."

*his text was written by
aul Burnham Finney of
inlyn Communications Inc.*

WHAT KIND OF A RESORT MAKES SURE YOU HAVE NOTHING TO DO?

On a blue crescent bay in Jamaica, there's a resort that's like no other in the world.

It's called Ciboney, and it's the only AAA Four Diamond all-inclusive resort in Jamaica.

At Ciboney, each private Villa Suite has a personal attendant to pamper you in every way. From unpacking your luggage to stocking your private bar to making you breakfast and serving it to you by your own villa pool. Which leaves you with nothing to do. Except enjoy yourself.

Forbes Magazine recently named the best resorts in the Caribbean. Only one was in Jamaica. This one.

And you will indeed enjoy yourself, with so many ways to spend your days and nights. The Caribbean's only world-class spa is here. There's a private beach club with windsurfers, sailboats, and open air dining. You can play croquet, tennis, squash and golf. And still have plenty left to do. Best of all, everything is included in the price at Ciboney: meals, drinks, tennis, water sports, and even spa services. Everything.

Food critics from Europe and America have raved about our 6 restaurants. They're all different. And, like everything else here, they're all included in your room price.

What kind of a resort is Ciboney?

Well, it seems to have everything you could want. So it must be *your* kind of resort.

Ciboney
CLUB OF BEACHES
A Radisson [illegible]
Beach Resort

For a brochure that tells the whole story of Ciboney, the Caribbean's superior resort, call your travel agent or 1-800-333-3333.

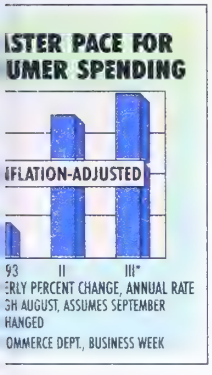
ER 18, 1993

BY JAMES C. COOPER AND KATHLEEN MADIGAN

NSUMERS' CURE FOR THE BLUES: SHOPPING

merican consumers are a hearty breed. In the third quarter, neither Midwest floods nor layoffs nor gloomy confidence levels kept them away their favorite malls. In fact, households appear to be ıg notice that they are willing and able to lead the economy to a quicker pace of growth in the second f 1993.

m all recent indications, consumers were big contrib- to the gain in real gross domestic product last er—to be reported on Oct. 28. Real consumer spend- ı both goods and services rose 0.2% in August, fol- g a 0.3% advance in July. Even if September outlays flat, spending for the quarter grew at nearly a 4% ıl rate. That would be even faster than the second- er pace (chart).



However, September buying looks a lot better than flat. The Oct. 5 *Johnson Redbook Report*, a weekly survey of department and discount stores, shows sales for the entire month up a seasonally adjusted 2.4% from August, and buying was 10.3% higher than a year ago.

Also, sales of homes and cars may well be healthier than they look. Mortgage applications for purchase continue to run much stronger than recent data. And while domestically made cars and light s sold at an annual rate of 11.4 million in September, below August's 11.5 million, car buying has been held by skimpy inventories at dealers.

OMES P PPERS FING

Consumers aren't just throwing caution to the wind. Lower interest rates are making new borrowing more attractive, but they also are easing the burden of lebts. Bargains abound, thanks to stiff competition g retailers. And because of steady improvement in bor markets, households are keeping their spending e with their income.

sonal income jumped a healthy 1.3% in August, led solid 0.9% gain in wages and salaries. After taking ıflation and taxes, real disposable income rose a 1.2%. Overall earnings had fallen in July, but that re- d a sharp drop in farm income because of the flood- ong the Mississippi.

ring the second and third quarters, consumer spend- se at an annual rate of 3.7%. Real disposable income was up 3.5%, and excluding farm income, it had grown at a 4.9% pace.

Prospects for further growth in incomes look good, given the recent upbeat tone in some job-market indicators. New jobless claims in September remained near a four-year low. And in August, the volume of help-wanted advertising hit a 2½-year high. That means household income should continue to grow at a pace that will support solid gains in consumer spending.

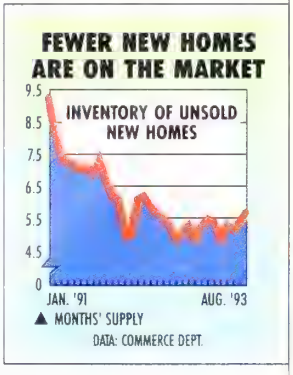
WHY HOME SALES TELL THE WRONG STORY

But if consumers are in such good financial shape, why are new homes selling so poorly? Despite the lowest mortgage rates since the early 1970s and a record clip for mortgage applications to buy a home, sales of new single-family homes have fallen in three of the last four months, including a 3.1% drop in August, to an annual rate of 616,000.

Certainly, demographics are playing a part in the steady but lackluster housing recovery. Fewer young adults are forming households in the 1990s than in the previous two decades. Moreover, job insecurity is keeping some would-be home buyers on the fence.

Another explanation, though, is that new-home sales, as defined by the Commerce Dept., miss much of the activity now going on in the housing industry. The sales data do not include custom-built homes where the buyer already owns the land and hires a contractor to build a house on the property. Instead, the sales number counts homes that are built on speculation by developers who hope someone will buy both the house and land.

Lending for such spec building, however, is out of favor with banks. In a typical recovery, 65% of home building is speculative. In 1993, less than 59% of new construction is being done without a specific buyer. This shift is why the 11.3% jump in housing completions in August better illustrates the strength in housing demand.

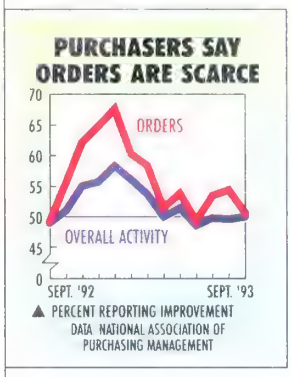


Moreover, existing homes are increasingly becoming a less expensive alternative to new homes. Resales in August were up 14.1% from a year ago, while sales of new homes were down 1.4%.

As a result of the changes in the housing market, builders are keeping their supply of unsold homes low (chart). The inventory of new houses rose to 5.7 months in

August, but that is well below the 6- to 7-month supply considered normal.

That doesn't mean builders are idle, though. Work on home additions and renovations has been strong during the past two years. Post-hurricane rebuilding is one reason. Another is that weak home prices have prevented many people from trading up to bigger homes.



Instead, homeowners may be refinancing their mortgages and then renovating their homes to get more space and frills. Spending on residential improvements makes up about one-quarter of all housing outlays, but it has contributed 36% of all the growth in home construction during this recovery.

With refinancing still strong, more money will pour into renovations. So even while home sales may seem disappointing, the better-looking data on home completions and improvements mean that investment for residential construction—which already added almost one percentage point to growth over the past year—will continue to lift the economy into 1994. And that boost will generate additional consumer spending for home-related goods, such as furniture, appliances, and other housewares.

FACTORY STOCK LEVELS ARE LEAN

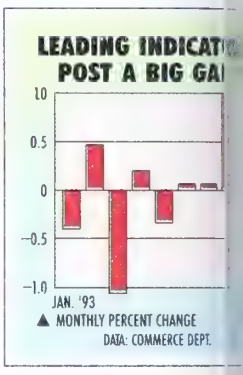
Of course, construction is not the only sector that's looking for consumers to lend a hand. Manufacturers also are hoping that increased consumer spending will keep them busy in coming months. So far, though, the news from the industrial front is, at best, mixed. Output and inventory levels are on the right tracks, but orders aren't coming in fast enough to lift payrolls.

The National Association of Purchasing Management says its index of industrial activity rose to 49.7% in September. Although that's better than the August reading of 49.3%, it is just shy of the 50% line that marks the difference between factories expanding or contracting.

The problem: Demand remains soggy (chart). After rising for two months, the NAPM's index of orders slipped sharply, to 50.3%, from 54% in August. The falloff came almost entirely from domestic demand; the index of export orders was little changed last month.

The purchasers' survey, however, also showed that inventory losses weren't as large last month as they were in the previous five months and that production was up for the third month in a row. The output gain suggests that industrial production probably grew at a 3% annual rate in the third quarter, on top of a 2.1% rise in the second.

Any uptick in new orders would keep output rising. That's because inventories remain low. In a separate report, the government said that stock levels in manufacturing were flat in August, while shipments rose 1.5%. That pushed the ratio of factory inventories to sales down to just 1.49 in August, from 1.52 in July.



The government's chief forecasting tool, the composite index of leading indicators, also offers manufacturers some hope. With 10 of the 11 indicators improving, the index posted its biggest gain of the year, rising 1% in August (chart). Since the indicators are skewed toward the factory sector, the advance suggests that better times are ahead for goods producers.

That prognosis, though, depends largely on consumers. Despite their moody attitudes, they showed in the third quarter that they have the will and the wallets to keep shopping. The healthy outlook for jobs and income growth suggests that consumers will keep the economy chugging along in the fourth quarter as well.

THE WEEK AHEAD

RETAIL SALES

Thursday, Oct. 14, 8:30 a.m.

Retail sales probably rose by a solid 0.5% in September, forecast economists surveyed by MMS International, a division of McGraw-Hill Inc. Store receipts had increased by just 0.2% in August, but the reports from department stores and retail chains suggest that September activity was stronger. Excluding cars, retail sales also increased 0.5% last month, on top of a 0.1% gain in August.

PRODUCER PRICE INDEX

Thursday, Oct. 14, 8:30 a.m.

Producer prices for finished goods likely edged up just 0.2% in September, after a plunge in tobacco prices caused the PPI to fall by 0.6% in August. The expected advance would be the first increase in producer prices since April. Excluding food and energy costs, prices probably rose 0.2% last month, after falling 1% in August.

CONSUMER PRICE INDEX

Friday, Oct. 15, 8:30 a.m.

The MMS forecasters expect that consumer prices rose 0.2% in September, a bit slower than their 0.3% gain in August. If so, consumer inflation continues to run at an annual rate below 3%.

MERCHANDISE TRADE DEFICIT

Friday, Oct. 15, 8:30 a.m.

The foreign trade deficit in August was probably little changed from July's $10.3 billion level. Exports and imports fell in July, but both are expected to have regained some ground in August. The August forecast suggests that the trade gap so far in the third quarter is running slightly above its second-quarter average.

INDUSTRIAL PRODUCTION

Friday, Oct. 15, 9:15 a.m.

Output at the nation's factories, mines and utilities likely increased 0.3% in September, says the MMS report. Output was up 0.2% in August, and the September forecast indicates that output grew at an annual rate of nearly 3% for all of the third quarter. The capacity-utilization rate probably rose to 82% this month, from 81.8% in August.

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October 1, 1993

The Zen philosophy
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as it is for the East.
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NOW THAT HARD-LINE RESISTANCE IS BROKEN, YELTSIN HAS TO ATTACK THE ROOT OF RUSSIA'S TROUBLE: THE ECONOMY. BUT HE MUST IMPLEMENT REFORMS WHILE CONSOLIDATING POWER—WITHOUT DESTROYING HIS LEGITIMACY AT HOME OR ABROAD

Ugly streaks of soot mar the once-pristine white marble facade of Russia's Parliament building in central Moscow. The former icon of Russia's democrats, the ruined White House now symbolizes the two years Russia has largely wasted on infighting. And its scars are an ugly reminder of the angry confrontation that erupted into pitched battle on Oct. 4, when troops loyal to President Boris Yeltsin took back the building from right-wing legislators and their heavily armed backers.

Yeltsin's victory came at a heavy cost. The tank, machine-gun, and sniper fire killed more than 150 Muscovites. For hours, the country teetered on the brink of all-out civil war. But the outcome looks promising: Rebellion ringleaders Alexandr V. Rutskoi and Ruslan I. Khasbulatov sit in Lefortovo Prison. The Parliament that obstructed reform at every turn is dissolved for good. A new, bicameral legislature is due to be elected in December.

Yeltsin stands at a unique juncture in Russian history. Always a strong leader former under pressure, he now has the opportunity to build a new Russia with a market-oriented economy and democratic institutions. Western governments and most foreign businesses are behind him. If he can move nimbly enough and head off hard-line rebellions and separatist tendencies, he can give his citizens what they most want—security and prosperity. "We must press on with the economic transformation, and we need support for all government's efforts in that direction," Yeltsin exhorted Russians in his Oct. 6 televised address.

The effort is mammoth. Russia is mired in a deep recession. The cl

economy is wracked by 30% month-
ation, and the ruble that once trad-
1.60 per dollar is now virtually
less at 1,200 (charts). Meanwhile,
bs of millions of Russians are tied
gely inefficient industries and state
prises left over from a failed era.
at must Yeltsin do now? Many of
nswers seem straightforward. His
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alue, Yeltsin must
tight money poli-
And he must force
ntral bank to shut
printing presses
boost interest
-steps his govern-
seems ready to
ce.

Yeltsin's best ef-
o restore econom-
bility won't mean
unless he finally
res a frontal at-
n what remains of
trenched, old-style
unist system. "The
tes are looking for
ootholds.... Elec-
and competition
come easy in Rus-
warns Jeffrey
of Harvard Uni-
y, who advises the
n government.

AURS. That means
n has no choice
o stamp out the
ued, huge subsi-
r farms and factories that are ma-
ntributors to the deficit. Though a
l privatization program has been a
ccess, huge swathes of money-eat-
nosaur industries and unproduc-
ollective farms still exist on the
f cheap state money. He will have
ve the millions of bureaucrats,
gers, and others off state subsidies
t into the real world.
the same time, Yeltsin must come
th a viable social safety net that can protect the countless Russian lives that revolve around propped-up state factories. While fear of a social explosion has so far kept unemployment at an absurdly low rate of 1%, a surge of layoffs is now inevitable. Yeltsin must take measures allowing those displaced workers to move to new jobs and provide for their temporary housing, food, and retraining. "Too swift a move to market forces would flatten everything like a typhoon. Fine-tuning will be awfully important and awfully difficult," says Michael Stürmer, a political analyst with the Institute for International Affairs, a German think tank.

In dealing with the West, Yeltsin must force Russian bureaucrats and newly successful businessmen to take a more enlightened stance toward foreign investment. They must shed nationalist beliefs that without economic protection, Russia is doomed to become a Third World country surviving on sales of oil and cheap resources. That means quickly unraveling a ridiculously complicated maze of tariffs, duties, royalties, and taxes for imports and exports.

OLD HAND. The payoff could be huge. The U. S. Commerce Dept. says American companies have invested just $400 million in Russia since 1987 vs. $2.5 billion in Hungary. "Business won't invest more until the Russians set up some coherent laws," says James A. McClung, vice-president of Chicago-based FMC Corp., which has been doing business in Russia since the 1930s.

In effect, Yeltsin must now define a new, distinctly Russian economic model that will reposition the vast nation in the world economy. It must provide some continuity with the past—not a system dreamed up at Harvard or by the International Monetary Fund. Indeed, some of Yeltsin's advisers are looking to Asia and Latin America for answers. In some cases, Yeltsin may allow vestiges of the old system's defense, energy, and technology industries to combine their efforts in new industrial conglomerates. That might allow the centrally planned system to wither over time rather than be abruptly scrapped. One model for the painful restructuring: Japan's *keiretsu* system.

The trick for Yeltsin will be to find a new balance between the Soviet system that is dying and a completely free-market system that is still out of reach. If he fails to do that, he leaves an opening for opponents in the lower reaches of the bureaucracy and particularly in the regions. "This is Yeltsin's last window of opportunity to get rid of old communist structures," says Wilfried Schmidt, senior analyst at Daiwa Europe Ltd. in London. "Either he wins now, or we'll see communist uprisings for a long, long time."

Now that the deadlock with Parliament is settled, Yeltsin's team is already

RUSSIA'S MONETARY CRISIS

AS THE RUBLE COLLAPSES... ...INFLATION SOARS

turning its attention to some of these issues. In an exclusive interview with BUSINESS WEEK (page 26), First Deputy Prime Minister Yegor T. Gaidar promised to assault the underpinnings of Russia's web of subsidies and loans: "The sums are enormous," he says.

Buoyed by the return of Gaidar, whom Yeltsin was forced to drop as acting Prime Minister last December, Yeltsin's team is mapping out a series of sweeping moves aimed at accomplishing much of their agenda (table). During the next few weeks, Gaidar and other insiders say, Yeltsin will issue a blizzard of decrees in an attempt to turn the economy around. He'll free prices on products and services still set by the government, such as bread and, perhaps, apartments. Among the most sensitive will be gasoline prices, which are still set by local governments. Motorists willing to wait in line for at least three hours currently can buy gas at about 40¢ a gallon from a state gas station.

Perhaps the centerpiece of Yeltsin's campaign will be to accelerate privatization. He's already moving fast, with some 4,500 state enterprises having been sold—and sell-offs are continuing at the brisk rate of 700 to 800 a month. The Supreme Soviet, however, had tried repeatedly to slow down or demolish the program by restricting voucher sales or placing government properties off limits. That roadblock is now gone.

Yeltsin also will be in a better position to throw a wrench into the central bank's printing presses, now that it no longer answers to the hard-line parliamentarians. To slow inflation, the central bank is ready to increase Russia's discount rate charged to commercial banks from 180% to 200%. Many observers are surprised that Yeltsin is keeping as bank chief the controversial Viktor Geraschenko, who orchestrated a farcical partial call-back of the ruble in July.

RING OF TRUTH? But Yeltsin needs all the allies he can get to help implement his reforms. If he fails to show quick progress on raising living standards, he could face another grass-roots rebellion. While the hard-core Rutskoi supporters were mostly fringe elements, their complaint that the state economy was being destroyed without anything to replace it rang true for many Russians.

One crucial question is whether Yeltsin can achieve his agenda without ...ing into heavy-handed authoritarian... Yeltsin has dissolved obstreperous ... and regional councils in Amur, No... birsk, and Moscow. In a stern sp... on Oct. 6, he dissolved the regiona... viets, or parliaments, because he ... lieves they're breeding grounds fo... hard-line opposition. Even liberal n... papers that have supported him ... themselves under censorship—if ... temporarily. Until the December ... tions, Yeltsin will be, in effect, a dic... ruling by fiat.

For now, President Clinton and o... world leaders are solidly behind ... Yeltsin is so confident of his strong ... tion that on Oct. 11, he'll embar... what could be a historic three-day ... to Tokyo, where he'll try to m... progress on resolving the 47-yea... Kuril Island dispute that has blo... any significant Japanese investme... his country. But that does not m... that the international communit... ready to open up the aid spigots wit... conditions. Indeed, the International

REMAKING RUSSIA'S ECONOMY: YELTSIN'S AGENDA

▲ SUBSIDIES

Lift remaining price controls on such sensitive products as bread and gasoline

SOCIAL SAFETY NET ▶

Establish programs to ease pain of expected mass layoffs

AGRICULTURE

Liberalize land ownership rules; break the bureaucracy's hold on food marketing and pricing

DATA: BUSINESS WEEK

tary Fund has made it clear that a
id $1.5 billion loan installment—orig-
to be delivered this fall—will not
leased until the government demon-
es progress on curbing inflation and
ing subsidies.
reign business executives also seem
backing Russia's President. Many
ve that putting down the Supreme
et's revolt foreshadows a better
ess climate later. Even though Mc-
ld's Corp. closed its three Moscow
urants on Oct. 4 as gunfire broke
earby, they were open and packed
ollowing day. "This hasn't deterred
any way, shape, or form," says
ond Langan, an official with Mc-
ld's Canadian unit, which runs its
ian operations.
e Parliament's demise is also good
for foreign bankers. This summer,
gislature passed a law banning for-
banks from making commercial
to Russians. That jeopardized the
ects for the more than half a dozen
n banks that had won licenses to
te here and dashed the hopes of
others. Yeltsin's government hopes
ract foreign banks to Russia. Now,
y have a chance. Says Steven Ful-
mp, head of the Moscow office of Chase Manhattan: "Everyone has been waiting for a breakthrough. We're hoping that this is it."

Other foreign business executives express guarded optimism. PepsiCo Inc., which has been bottling soft drinks in Russia since 1974 and now has 19 franchised plants there, closed down its office during the shooting on Monday but quickly reopened the next day. "Obviously, things are pretty tense, but we're still bullish on the markets," says a Pepsi spokesman.

Unemployment, now 1%, could soon skyrocket. But it's not certain Yeltsin has plans to handle that

Also pressing ahead is United Technologies Corp. Its Otis Elevator Co. unit has a deal in Russia, while its Pratt & Whitney unit plans to develop and produce midsize commercial aircraft engines and industrial gas turbines with Russia's Perm Motors Ltd. United Technologies "remains confident that its investments in Russia are safe," says President George A. David.

But Western executives are worried about some proposed changes, particularly plans to ban doing business in dollars after Jan. 1. Executives had assumed that they could freely use more stable foreign currencies in internal Russian trade.

Many experts doubt that a dollar ban will work. "You cannot stop the flow of cash in Russia. Dollars will find their way to the black market," says Sergei Yegoruv, president of the Russian Banking Assn. Such objections may be one reason that Gaidar seemed to softpedal the plans in his BUSINESS WEEK interview.

Whatever path Yeltsin takes, the remade Russian economy is hardly likely to form in the Anglo-Saxon mold. Instead, key forces within Yeltsin's camp, such as Prime Minister Viktor Chernomyrdin, are looking around the globe. "They have not been pushing for a real market economy, but for some intermediate stage," says Konstantin Borovoi, president of the Russian Commodity & Raw Materials Exchange:

▲ ENERGY

Boost sagging exports of oil and other resources to prop up revenues and pay down debt

PRIVATIZATION

To speed up the current program, put bigger state companies on the block

FOREIGN INVESTMENT

Streamline and clarify the tax and legal systems to attract more commercial investment

FINANCIAL REFORM

Gain control of Russia's central bank; cut inflation by slashing huge state credits; bolster the ruble with higher interest rates

"They want an administered market."

One organization that could give hints of Russia's industrial future is a company called Rosshelf. When DuPont Co. subsidiary Conoco Inc. expressed interest in developing a vast natural-gas field under the deep and frigid water of the Barents Sea not long ago, Russia's scientific elite took notice. With high-level backing from the Yeltsin insiders, Rosshelf, a Russian consortium, was put together to compete against the Westerners for the natural gas project. The consortium includes Gazprom, the state natural gas monopoly, various geological institutes, and a nuclear submarine shipyard. It won the deal, meaning that Western companies had squandered millions in preliminary exploration expenses and other costs.

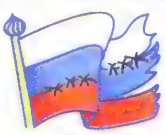
Rosshelf hopes to promote new Russian industries while converting military industries to civilian use, says Yevgeny Velikhov, the venture's nuclear physicist chairman. Rosshelf expects that by designing and building new offshore oil platforms capable of drilling for oil and gas in extremely deep and cold water, it "can save 50,000 jobs at the shipyard since there are no more orders for nuclear submarines," says Velikhov, who says the venture is modeled on a *keiretsu*. All in all, he expects to save 200,000 defense and industrial jobs if the Rosshelf experiment works.

Of course, there are dangers in that kind of industrial reengineering. More radical reformers such as Gaidar and Finance Minister Boris G. Federov fear that these new combines would be only a sleight-of-hand that allows old state-backed enterprises to emerge in new form. Allied with prominent laissez-faire economists from the West, they prefer a mix of policies that encourages entrepreneurship from the ground up. Harvard's Sachs says, for example, Yeltsin probably will issue decrees will make it easier for entrepreneur start new companies and break into heart of the industrialized economy. er steps to open up foreign trade c benefit this entrepreneurial secto economy.

The upshot is that it's no longe question of whether Yeltsin will dis tle the old Soviet system—only h Even if Yeltsin himself cannot de the precise makeup of the future R sian economy, his bold moves are rai hopes, yet again, that someday Ru may be able to transform the wo biggest military production complex something that better serves million needy Russian consumers. It might happen.

By Peter Galuszka, Patricia Kr and Juliette Rossant in Moscow, with reau reports

YEGOR GAIDAR: ECONOMIST ON THE HOT SEAT



First Deputy Prime Minister Yegor T. Gaidar is reemerging as the main architect of President Boris Yeltsin's economic reform program—which Yeltsin now plans to pursue aggressively after crushing his enemies in Parliament. In an exclusive interview, Gaidar told BUSINESS WEEK how he intends to attack the underlying structures of the old communist system.

Q *How are you going to tackle inflation?*

A Inflation is connected not only with the budget deficit but also with the credit policy that is pursued by the [still-independent] central bank. It has been subsidizing our national economy and also subsidizing the deficit of our partners in the commonwealth. This is a complex problem.

When talking about the government budget deficit, we do not intend to fulfill the budget that was adopted by the previous Supreme Soviet with a deficit of 26 trillion rubles [$21.7 billion]. We shall try to cut the budget deficit to between 10 trillion and 20 trillion rubles. So naturally, that is not a simple task. It envisages significant cuts in subsidies.

Q *Which subsidies will you cut?*

A First of all, we will cut the preferential subsidies that have been used to support centralized enterprises [of the old communist system]. That decree is already signed and made public. We will stop subsidizing agriculture cooperatives, for example, which receive loans carrying interest of only 28% a year, and defense units, which receive loans of only 13% a year. The sums are enormous. All these credits will now be granted on the basis of usual market interest rates, which are basically 200% a year.

This, I think, is most significant. Then, there will be a cut in subsidies for centralized imports. We shall stop subsidizing agricultural products, both domestic and imported. There also v be a reduction in subsidies for the e extracting industry and in some oth branches of the national economy.

Q *What is the government's plan to tract more foreign investment?*

A It's clear that armed uprisings not promote capital inve ments. Nevertheless, t government plans to i plement a number of s nificant measures to p vide better conditions foreign investors. A pre dential decree is now ing prepared that w clarify regulations a grant foreign investors t same status as local inv tors. There is also the p sibility that foreign inv tors will be able purchase property] in t territory of the Russi federation.

Under the same decr the government will take measures develop the financial infrastructure support foreign investments. The measures have already been a nounced, but they have not been fu implemented. I am referring to t Russian Bank of Reconstruction & D velopment, the Russian Export-Imp Bank, the Bank of Promoting Ent prise, and some other banking and nancial structures.

Gaidar, the main architect of Yeltsin's reforms, vows "significant measures to provide better conditions for foreign investors"

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EYEWITNESS TO A COUP THAT FAILED

It's a warm, sunny Sunday afternoon—a rarity for Moscow in October. Outside, people stroll through the bright yellow foliage of birch trees. In our apartment, my wife finishes giving me a haircut, while our 2-year-old naps and her older sister plays. Suddenly, a loud chattering sound. Gunfire? The phone rings. BUSINESS WEEK Correspondent Patricia Kranz calls to say anti-Yeltsin demonstrators have broken out of the nearby parliament building, where Vice-President Aleksandr V. Rutskoi and supporters have been holding out.

I dash from our apartment down Kutuzovsky Prospect and toward the "White House," just a quarter of a mile away. In front of a bus with smashed windows is a group of flak-jacketed Interior Ministry troops listening anxiously to a walkie-talkie. Eerily, the large contingent of police that had surrounded the White House has now melted away.

The area is full of agitated Rutskoi supporters. A ragtag crowd with communist banners shouts slogans from a balcony. A bearded man approaches me and exclaims: "Yeltsin's dictatorship is over!" Teenagers clip away pieces of the razor-sharp concertina wire around the Parliament as souvenirs.

OFF THE AIR. Soon, pro-Rutskoi toughs in green and white camouflage uniforms start forming a convoy of captured military trucks and a jeep. Some carry Kalashnikovs. One affixes a red Soviet flag to the lead jeep, shouting "Ostankino, Ostankino," the name of the 18th century palace where Russia's central television studios are located. Urging the crowd to follow, the little convoy roars up a street, followed by eight yellow ambulances with flashing lights. As I start back toward BUSINESS WEEK's bureau, machine-gun fire bursts from the high-rise building that houses the now-occupied Moscow mayor's office.

The next hours are confusing. At 8 p.m., we switch on the television and watch a nervous announcer read Yeltsin's state-of-emergency order on the only TV channel still broadcasting. There's fighting at Ostankino.

I head off alone to the television center about five miles away. Approaching it by car, I hear gunfire and see ambulances race past. Soon, I notice about 20 onlookers cowering behind a smashed car. Suddenly, streams of red tracers lick the sky. One stream arches toward my car. I turn around, fast. Later, I realize how lucky I was. Four other journalists were killed.

The next morning, the fighting starts in earnest. A column of tanks and armored personnel carriers pulls up in front of our apartment, waiting to move on to the White House. As they head out, we begin to hear machine-gun fire and the booms of even bigger weapons. Yeltsin's forces have begun their assault on the White House, and the cacophony lasts for hours. To get a closer look, Patricia leaves her apartment nearby for the river embankment across from the White House. T-72 tanks take up positions there, and she's told to move as bullets snap past.

Despite the obvious danger, a crowd of several thousand bystanders gathers, drinking beer and munching hot dogs. Japanese tourists saunter by. A boy walks his dog. As armored personnel carriers rake the 17-story White House's marble facade with machine-gun fire, a father hoists his young s to his shoulders for a better vie From time to time, a T-72 lets of round with an enormous boom th shakes the ground. This is followed most instantly by a loud crack and t orange flash of a shell exploding the White House's upper floors. In comic note, each cannon shot trigger chorus of car alarms in the parki lot of the Hotel Ukraine.

Working the crowd is BUSINE WEEK Correspondent Juliette Rossa who once covered the fighting in Az baijan. One spectator she speaks w is 18-year-old student Nikolai Bec kov. He, his brother, a two friends watch the tion through binocula "These communists g weapons to all these cr people," he tells her. "Y sin should have done t two years ago."

TANK-TOP VIEW. Just af noon, the fighting d down. Negotiations sc start. Defense Minis Pavel S. Grachev's bla Zil limousine slowly ro to the middle of t bridge so he can m with White House ne tiators. The silence is ch ing. Down by the riv bank, onlookers try climb the T-72s for a b ter view. Flames are li ing from two upper-st windows. The only sou is the slow bonging o drum that a Buddhist priest beats prayer.

It's not over, though. Shooting pi up from time to time. By 4:30 p. hundreds of White House noncomb ants file out of the building. Rutsk and Parliament Chairman Ruslan Khasbulatov are arrested. Even there's a new problem: snipers w periodically spray the streets and s with red tracer fire on into the nig When I return home, the sight of mored vehicles in front of our apa ment building is strangely comforti My family is safe. Our 4-year-old very curious about the day's even At one point, she gestured in the di tion of the machine-gun rat-tat a asked my wife, "Mommy, why are people out there clapping so hard?"

By Peter Galuszka in Mosc

Early in the rebellion, Rutskoi supporters shouted: "Yeltsin's dictatorship is over!" But Yeltsin's tanks got the last word

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HOW HE PLANS TO HELP U.S. BUSINESS CREAM RIVALS

Three years ago, executives of high-tech industries who looked to Washington for a little competitive help encountered a White House many perceived as ready to sacrifice American competitiveness on the altar of free-market fanaticism. Industry after industry was losing ground to Japan or Europe. But Silicon Valley and Route 128 leaders felt that the Bush Administration didn't care whether the U. S. made computer chips or potato chips.

What a difference an election makes. It doesn't dare utter the words, but in recent weeks, the Clinton Administration has announced key elements of what looks suspiciously like an industrial policy. The message: Uncle Sam no longer fears picking winners and losers. Instead, says Kent H. Hughes, a top Commerce Dept. technology official, "we have entered a new era of pragmatic partnerships between government and industry."

The new crew in Washington can't afford to ladle out money to every interest group, so it is pursuing industrial policy on the cheap. In September, for instance, the Administration relaxed export controls on computers. Computer executives say that the low-cost measure could stimulate billions of dollars of new exports. The Administration also forged a partnership with the Big Three auto makers to produce a clean, fuel-efficient car. And it released a blueprint for an "information highway" to zip data to offices, homes, and schools. Congress soon will give the President more money for Commerce pilot programs to spread manufacturing knowhow to small companies and to fund such key technologies as flat-panel displays.

High tech isn't the only beneficiary: The Administration is proposing research and development support for long-suffering shipbuilders, as well as loan guarantees aimed at stimulating $3 billion in new ship orders. It's also assembling a job-retraining program. And the Energy Dept. is readying tax breaks for domestic oil and gas producers. "There's so much stuff cascading down, it's hard to pay attention to it all," says William G. Morin, technology policy director of the National Association of Manufacturers.

Originally, Clinton had envisioned a more sweeping—and costly—pro-

INDUSTRIAL POLICY, CLINTON-STYLE

Unlike his two laissez-faire Republican predecessors, President Clinton believes the federal government should aid specific industries. Here are some of the President's recent initiatives, along with BUSINESS WEEK's assessment of just how interventionist they are:

Last February, he unveiled a $17 billion-plus plan, but much of the money was lost to deficit reduction. Still, many of the recipients are happy. The lifting of export controls "had hats flying in Silicon Valley," says Michael C. Maibach, Intel Corp.'s top lobbyist. "The changes are bolder than we thought they'd be," adds Silicon Graphics Inc. Chief Executive Officer Edward R. McCracken.

THE GIMMES. Will it work? Even supporters acknowledge that Clinton's strategy may be sorely tested. Clinton has hit "a lead-off home run," says Kenneth R. Kay, executive director of the Computer Systems Policy Project, a group of CEOs of major computer makers. "But we've still got nine innings to play."

to build, own, and operate it," says Reich.

Such moves are smart, says Elwood R. Kerkeslager, vice-president for technology and infrastructure at American Telephone & Telegraph Co.: "The Administration has taken the right steps."

To be sure, even when government and industry agree, their agendas often are at odds. Consider clean cars. Washington wants a radical change in technology to counter pollution and cut oil imports. But Detroit seeks incremental improvements to keep winning back market share. The conflicting interests could split the partnership before it gets into high gear. In fact, some top Big Three executives fiercely opposed it, fearing that the government would force their R&D down unwanted paths. The Administration rushed to announce the initiative, says a White House Official, "because we were afraid the Neanderthals would win."

Companies will take the lead in deciding which technologies should be funded

Then there's the question of how to cope with all the groups that haven't gotten a cut of the action yet. No sooner was the ink dry on new rules for computer exports than software publishers began clamoring for a similar relaxation on programs that let customers hide data by encrypting it. Without that, says Robert W. Holleyman, president of the Business Software Alliance, "we'll lose share even in the domestic market."

Then there's Congress. Lawmakers already are steering technology funds in a Defense Dept. research program started last year toward pet projects in their districts. "The program got porky at a faster rate than even the most cynical among us imagined," frets a senior Administration technology aide.

The White House vows to keep taxpayers in mind: "The focus of government should be on particular areas that benefit both the public and the private good," says Reich. Consider oil and gas. Says Energy Secretary Hazel R. O'Leary: "The domestic industry needs our support because it is crucial to our national and economic security." Production incentives are cheaper than defending the Middle East, she says.

RELAXED RIVALS. Again, though, the industry has other priorities. Small oil companies want fees on imported oil, which would drive domestic prices up. Many producers also want to drill in off-limits areas, such as the Outer Continental Shelf and the Alaska National Wildlife Refuge. Tax incentives "are just a bone thrown to the industry," scoffs Steven A. Tedesco, president of Denver-based Atoka Exploration Corp.

With powerful industries pursuing their own agendas, the Clinton Administration will have to be deft. To date, overseas rivals are hardly quaking in their boots. "We are not thinking, 'My God, there's a new competitor on our markets,'" says Lorenz Schomerus of the German Finance Ministry.

While Corporate America generally likes what it sees coming out of the White House, CEOs have their eyes fixed firmly on the bottom line. That means their biggest concern remains the overall health of the U.S. economy. "If the Administration keeps raising taxes and doing other things that foul up the general business climate, doing the clean car or paying more attention to exports won't matter," says the NAM's Morin. That's a thought most executives consider more vital than the trickle of industrial-policy goodies from Washington.

By John Carey and Douglas A. Harbrecht in Washington, with Russell Mitchell in San Francisco and bureau reports

CLEAN CARS Up to $500 million-per-year partnership between federal researchers and the Big Three auto makers is aimed at developing ultraclean, efficient cars.

Intervention quotient: Moderate. Carmakers to put up roughly half the money. Taps existing federal R&D.

OIL AND GAS TAX BREAKS This program aims to boost domestic drilling and cut import dependence.

Intervention quotient: High. Directly subsidizes a domestic industry.

INFORMATION INFRASTRUCTURE Would create an information highway connecting businesses, schools, and homes. Clinton would chip in $1.5 billion.

Intervention quotient: Moderate. Most of the investment would come from private industry.

EASED EXPORT CONTROLS Would let companies export sensitive technologies if they are already available outside the U.S.

Intervention quotient: Low. Would help many industries.

SHIPBUILDING A $147 million program to guarantee loans to keep the U.S. shipbuilding industry alive.

Intervention quotient: High. Targets one industry for government help.

ADVANCED TECHNOLOGY The government would provide $200 million annually for R&D projects in such areas as flat-panel displays and new materials.

Intervention quotient: Moderate to high. Industry must put up half of R&D funds.

usual, the biggest knock on industolicy is that critical decisions will e shaped by politics, not economs, and that the government will d up backing costly losers, as it the 1970s when it subsidized synfuel plants and breeder reactors. Secretary Robert Reich wants to that trap by having companies n picking which technologies to and making them ante up much of ost. Take the information superay. "The government will simply the right conditions for industry

PARAMOUNT: TALK ABOUT THE PLOT THICKENING

Viacom and QVC are forging alliances they could later regret

When the directors of Paramount Communications Inc. finally sit down to consider bids for their company, they'll have plenty of bankers to crunch numbers and lawyers to draft agreements. But what they'll really need is a marriage counselor to talk about relationships.

As Viacom Inc. and QVC Network Inc. raise the ante in their battle for Paramount, both are spinning complex webs of alliances. Viacom Chairman Sumner M. Redstone has locked arms with Nynex and Blockbuster Entertainment. The two companies will invest a total of $1.8 billion in Viacom, which most observers expect Redstone to use to sweeten his $7.3 billion offer. And Redstone may seek yet another partner, most likely a cable company.

Executives close to QVC say Chairman Barry Diller is also talking to Baby Bells and other companies. New partners could allow him to boost his $9.4 billion bid if Redstone tops it. Or he could enrich the $3.5 billion cash portion of the deal. Diller is already backed by two cable heavyweights: Liberty Media Corp. Chairman John C. Malone and Comcast Corp. President Brian L. Roberts.

If cold cash is the heavy artillery in the war for Paramount, then relationships have become the cudgels. Each bidder is promoting his ties and deriding those on the other side. Both players, though, are embarking on a risky strategy: Relationships are gossamer things that shift over time. Just consider how many of them have frayed since the battle began. "This has gotten pretty aggressive in terms of players hurting each other," says John Tinker, a media analyst at Furman Selz Inc.

Redstone claims his alliances with Nynex and Blockbuster will help achieve Viacom's goal of distributing MTV music videos and Paramount movies around the world. "There are so many fantastic things we can do together," he says. People in Diller's camp contend Redstone is merely stocking his war chest for the next round of bids.

By contrast, advisers to Diller contend that QVC's cable partners make the home-shopping channel a superior match for Paramount. That's because Diller would have ready access to the 13 million cable subscribers of Comcast and Tele-Communications Inc., the cable giant also controlled by Malone. Redstone argues that Diller is cozying up ruthless monopolist and has filed antitrust suit to that effect.

Both arguments have some merit. com will clearly benefit from the tec cal expertise of Nynex in areas suc digital switching. Like Viacom, Nyn strong in overseas markets, inclu Britain, where it is building a comb cable-telephone system. Yet cable ex tives say Redstone may come to re the deal if the strategic interest Nynex and Viacom diverge later "You can pay dearly for these dea the long run," says Glenn R. Jo chairman of Jones Intercable Inc.

BATTLE SCARS. For his part, Diller be trailed by whispers about the arm of Malone. On Sept. 16, soon Redstone unveiled the merger, TCI German media giant Bertelsmann they were launching a music-video home-shopping channel that could pete with MTV. Viacom executives the announcement deflated the valu its deal at a critical juncture. Mic Dornemann, chairman of Bertelsm Music Group, insists the timing wa incidental, though he concedes ot might not see it that way.

Moreover, two weeks later, Walt ney Co. awarded a 10-year contract its feature films to Encore, a new pa service backed by Liberty. Dis turned down a bid from incum Showtime Networks, which is owne Viacom. One executive close to the says Encore boosted its offer to an mated $1 billion, 20% higher than Sh

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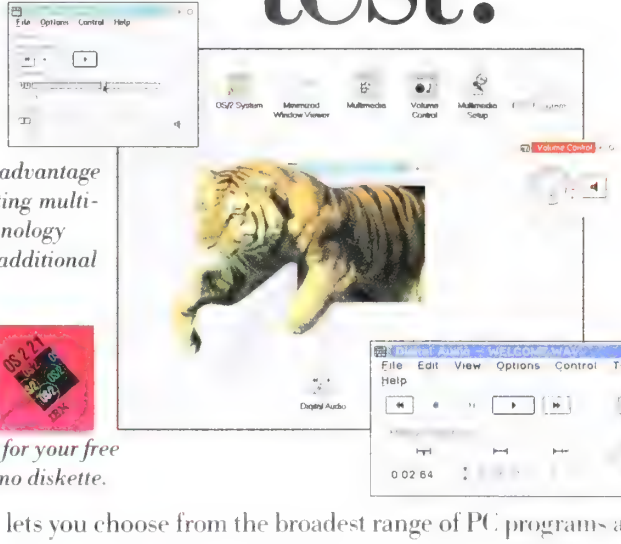

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time's bid, after the takeover began.

Even Time Warner Inc., a bystander with ties to both QVC and Viacom, has been pulled into the fray. On Sept. 27, the company announced it was starting two upscale home-shopping channels. The channels, a joint venture with catalog company Spiegel Inc., could end up competing with a new QVC service.

Redstone acknowledges that alliances are tricky: "No one who is not a hypocrite or a liar can guarantee how a relationship will look in the future." But he says he has chosen his friends carefully. What's more, he has relinquished little control. Neither Blockbuster nor Nynex will own any of Viacom's voting shares. Even after both convert their preferred equity into common stock, Redstone will still firmly control the company.

Less clear is how the Paramo board will evaluate alliances in choo a bid. If Redstone comes close to Dil offer, they probably can't avoid question. Given the ephemeral natur relationships, the directors had be hope one of the bidders just plu down a bigger pile of cash.

By Mark Landler in New York, Ronald Grover in Los Angeles

EDUCATION

CALIFORNIA MAY CHOOSE SCHOOL CHOICE

If so, parents would get vouchers for private and parochial school tuition

Back in 1978, Californians passed Proposition 13, a controversial cap on property taxes. Then they sat back and watched their vaunted public education system crumble because of tight budgets. Next month, voters will have a chance to vote on a proposal that proponents—including some key business backers—say will reverse the slide by creating the nation's most far-reaching experiment with school choice. Trouble is, the "choice" would extend to private and parochial schools. So, the state's public-education Establishment is bringing out the big guns to stop it.

Proposition 174, the measure that is causing all the fuss, would give parents a voucher worth $2,600 to be redeemed at whatever school they choose. Opponents say that the $1.3 billion that would end up being paid out to parents of children already in private schools would devastate the state's education budget. They also promise court challenges to the use of tax money for religious schools.

UPHILL FIGHT. Proponents, however, argue that a little competition might do the system some good. "Education is now just a monopoly," says Joseph F. Alibrandi, the chief executive officer of Los Angeles aerospace contractor Whittaker Corp., who orchestrated the signature campaign that put the proposed constitutional amendment on the Nov. 2 ballot. "Our objective is to bring the forces of the marketplace to bear to force public schools to improve." The measure is being backed by a coalition of conservative Republicans, libertarians, Catholics, and Christian fundamentalists. If it passes, it would be the nation's first broad-scale voucher system.

Supporters of Proposition 174 face an uphill battle, though. The opposition has raised more than $10 million and has already started running extensive television advertising poking holes in the idea. Most of the money comes from the powerful California Teachers Assn., which is assessing its more than 200,000 members $63 each to fight the amendment. Another important naysayer: President Clinton, who in an Oct. 4 speech to the AFL-CIO in San Francisco, opposed the proposal.

Proponents, meanwhile, have garnered just $1.1 million so far, largely because they've failed to enlist m support from business. "Business ways likes to present itself as a frien education, but ends up as a friend of education Establishment," says Wil J. Bennett, a former U. S. Education retary who supports the measure.

VOLATILITY. Despite long odds, thou supporters have a chance at an upset a survey released on Sept. 30, 1,400 fornia adults ranked education as issue that should have the highest pr ty—over the economy and over he care. Three-quarters want a sch choice plan that includes private scho and 63% are in favor of using vouch to get there (chart). "Our poll show pretty volatile, 'we're fed up' attitu and the initiative plays right into says Michael W. Kirst, a Stanford versity professor and co-director of cy Analysis for California Educa (PACE), the independent think tank commissioned the poll.

Public support, however, is far f firm. The main problem is that the m sure doesn't set up the safeguards the public would like to see, and the on 174" campaign is deftly ploiting that in its TV Proposition 174 does not h private schools to the sa academic and fiscal standa as public schools, and it w allow private schools to re students based on their der or religion, for exam In July, in an attempt to dercut the proposal, state islators hurriedly passed a allowing students to tran between school districts limited form of choice alre used in a dozen states.

Even if voters reject P 174 this time, it proba won't die. And if it passes supporters expect the ide spread. "For good or ill, rest of the country look California when it wants see its future," says Benn The future, it seems, portel some kind of school vouc system on a grand scale.

By Larry Armstrong in Angeles

LONG SLIDE: A PUBLIC SCHOOL IN SAN FRANCISCO

REFERENDUM FOR CHANGE

FROM SEPTEMBER POLL OF 1,404 CALIFORNIA RESIDENTS. MARGIN OF ERROR: + OR −3 PERCENTAGE POINTS
DATA: POLICY ANALYSIS FOR CALIFORNIA EDUCATION

The McCooeys

ALTHOUGH THE MCCOOEY BROTHERS AND THEIR SISTER
HAVE ALWAYS BEEN REMINDED OF THEIR STRIKING SIMILARITIES,
IT IS THEIR DIFFERENCES THEY HAVE ALWAYS INSISTED ON.
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A DIFFERENT WATERMAN PEN. FOR WHILE STYLE IS KEY,
INDIVIDUALITY IS STILL EVERYTHING.

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MERGERS

HCA-COLUMBIA: A CONCORDE OR A BLIMP?

In a new era of health reform, it must prove that bigger is better

Richard L. Scott is no fan of the Clinton health-reform program. Yet the chief executive officer of Columbia Healthcare Corp. may be one of the first to benefit from Clinton's proposal. That's because Thomas F. Frist Jr., HCA-Hospital Corp. of America's CEO, responded to the prospect of the Clinton plan by picking up the phone and cutting a deal with Scott. On Oct. 2, the two announced that their companies would merge in a $5.7 billion stock swap. "If President Bush had been reelected . . . this merger would not be happening today," says Frist.

Scott and Frist figure that bigger will no doubt prove better in a market consumed by reform. Critics have their doubts about the strategy, but everyone agrees that the new Columbia certainly will be big: Just a month ago, Columbia put up $3.4 billion to acquire Galen Health Care Inc., a 73-hospital chain spun off by Humana Inc. By adding HCA to the fold, Scott, a 40-year-old lawyer, will turn Columbia into a 190-hospital behemoth with $10 billion in annual revenues—nearly five times the size of HealthTrust Inc., its closest for-profit competitor.

SMORGASBORD. The Columbia strategy is simple. To gain clout in a market plagued by an oversupply of hospital beds, the company buys into a region, then consolidates facilities to cut duplication. Next, it invests heavily to build up a sort of one-stop-shopping service for big health-care buyers. Its sheer size and ability to cut costs could give it "a distinct advantage" in its market, says Humana President Wayne T. Smith.

If it works, the HCA deal would simply be an extension of a proven strategy. But critics say Scott will have to prove that Columbia's formula can work on such a vast scale. Indeed, the pace of Columbia's expansion has been so swift that Scott hasn't even had time to move into the new house he bought in Louisville, where Columbia moved after the Galen merger. His expanded company may end up headquartered in Nashville.

EMERGENCY ROOM TO COME: EVEN MORE PURCHASES ARE PLANNED

As it digests HCA, Columbia's most significant task will be to win over the managed-care outfits that are likely to be the biggest buyers of health services under the Clinton Administration reform plan. To attract these health-maintenance organizations and corporations, Columbia will have to offer a smorgasbord of services in each market—from psychiatric counseling to pediatrics to outpatient services. That means the company must invest heavily in many new local markets, where its presence not strong. "It doesn't matter if have 100 or 1,000 hospitals scat across the country," says Bradle Arms, senior vice-president for we managed-care operations for C Health Care Cos. "It's what they do local market that makes them attra to a managed-care company."

To keep costs under control, Scot work to persuade doctors in his ne gions to practice with an eye on bottom line. In the past, Scott has physicians motivated to keep costs by offering them equity stakes i operations. But that practice is co under attack by state and federal makers as a conflict of interest an use may be limited.

Scott harbors no doubts about growth strategy or his pla swallow HCA. Because Co bia's operations are man by local executives, he they won't be jolted by th coming merger. "There's ing to digest," says fina Richard E. Rainwater, an nal Columbia investor helped broker the deal HCA. "It's just the opp [This] will accelerate the nalization of each of the kets because we'll have s ger, more powerful netwo

Columbia, meanwhile, seem to stop buying hosp Just weeks after it entere Kansas City area via the G merger, for instance, Colu agreed to buy a second hos there. And it has made o for two more in the re Scott's spending spree ha ready prompted competitors to res in kind: In Florida, Columbia's G purchase has helped launch a wav collaboration by competing hospitals even though Scott may be no fan o Clinton reform plan, his compan clearly going to play a major ro making it happen.

By Zachary Schiller in Cleveland, Maria Mallory in Atlanta and bu reports

HOW COLUMBIA BECAME A GIANT

OCTOBER, 1987
Scott and Rainwater each invest $125,000 to found Columbia Hospital

JULY, 1988
Columbia purchases its first hospitals and diagnostic centers in El Paso

JULY, 1992
Buys Florida-based Basic American Medical and its eight hospitals

SEPTEMBER, 1993
Acquires Galen Health Care, taking it to 94 hospitals and $5 billion in revenue

OCTOBER, 1993
HCA and Columbia announce stock swap to create a 190-hospital chain

DATA: COMPANY REPORTS, BUSINESS WEEK

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RESIGNATIONS

THE RETIREE RULES: NIKE IS SET TO LAUNCH A NEW GENERATION OF AIR JORDAN SHOES

THE NBA MAY FEEL A VOID —BUT JORDAN INC. WILL PLAY ON

With long-term deals in place, sponsors must refashion the star's image

The final play took place in a hotel room in Deerfield, Ill. There, on Oct. 5, basketball superstar Michael Jordan, his agent David Falk, and Falk's associate Curtis Polk methodically placed phone calls from noon until 5 p.m., announcing the end to Jordan's playing days. Falk first called National Basketball Assn. Commissioner David J. Stern. Then he phoned each of the companies that collectively pay Jordan an estimated $28 million a year to move products: Nike, McDonald's, Quaker Oats' Gatorade unit, and a host of others. Occasionally, Jordan took the phone after Falk broke the news, but most often, Falk handled the chore alone.

As they deal with the dawn of a post-Jordan era, each of the recipients of Falk's telephone calls faces a daunting task. The league must create new superstars to replace Jordan's charisma. The Chicago Bulls must build a winner before moving into a $160 million new stadium in 1994. And the corporate sponsors face the toughest task of all: They've got to take an asset that renewed itself every time Michael Jordan laced up his Nikes and make certain it does not waste away. "Michael's not going to be bouncing a basketball up and down a basketball court 100 times a year," Falk says. "But he's with a group of blue-chip companies that will work to maintain his image around the world."

And he's with them for a long time. This past summer, before Jordan's father was murdered in an act of apparently random violence, Falk told the sponsors that it was time to prepare for the 30-year-old Jordan's eventual retirement. Falk then renegotiated most of the endorsement deals—set to expire over the next few years—extending them out 10 years, regardless of whether Jordan remained in the game. Says Guy E. Thomas, Wilson Sporting Goods Co.'s marketing director for basketball: "The goal was to try to maintain the public fascination with Michael Jordan for a long period of time." Still, he adds, Jordan's retirement "is not something we counted on quite so soon."

JUST DID IT? By the time Jordan officially announced his withdrawal from the game on Oct. 6, only the contract with McDonald's Corp. remained to be signed. And only McDonald's apparently did not receive a call from Jordan in advance of his announcement. "We found out about it the same time the rest of the world did, and it was on television," says a spokesworn

Jordan's biggest sponsor, Nike stands to lose the most if it can't refion the Jordan endorsement mess Nike Chairman Philip K. Knight, w $200 million Air Jordan line has fa prey to the slow growth infecting sneaker business, flew to Chicago f Beaverton, Ore., to spend the mornin Jordan's house before the retiren press conference. Now Knight must cide whether Jordan still fits Ni "Just Do It" marketing campa There's an early test ahead. The co ny on Nov. 15 is set to launch its ne Air Jordan shoe, and TV commerc still have to be shot for the sneake

For Bulls owner Jerry Reinsdorf, retirement is cause for alarm. True, boxes in the Bulls' new United Cen which opens in the fall of '94, are leased for up to eight years. But sea ticket sales and the value of the B franchise—currently estimated at million—all could drop if the Bulls d keep winning in the post-Jordan "Obviously, this is not a good thing the franchise," Reinsdorf says. "But not going to have any long-lasting n tive effect."

CHARISMA GAP. The NBA, which been heralded as the most succes sports league in recent years, will h to fight to prevent a fallout. Bes Jordan, perennial stars Larry Bird Earvin "Magic" Johnson also have tired within the past 12 months. Now league must build its image around p ers with bad-boy images, such as out ken Phoenix Suns forward Charles B ley, or around such relative newcom as Shaquille O'Neal. "There's going have to be another Michael Jorda wear the crown," says Stern.

Jordan, as he wound up his pro sional basketball career before an i national TV audience, seemed at p about his decision. says that the g holds no new c lenges and that wants to lead a n normal life. "The s light has been good to me, and h fully, I've been g to it," he says. N it's up to Jordan his sponsors to m certain that the l doesn't dim too fa

By David Greising Chicago, with Jones Yang in Se and Laura Zinn in York

GETTING RICH ON THE PITCH

Athlete/ Some accounts	Endorsement earnings* Millions of dollars
MICHAEL JORDAN Nike, Gatorade, McDonald's	$28
ARNOLD PALMER Cadillac, Textron, Penzoil	$11
JACK NICKLAUS Lincoln-Mercury, Rockport	$10
JOE MONTANA Sara Lee, Upper Deck, Sega	$9
SHAQUILLE O'NEAL Reebok, Pepsi, Spalding	$8

*Estimates

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Director of Management Information
Chesebrough-Pond's USA

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SPORTS BUSINESS

WHO SAYS PRO HOCKEY CAN'T BE CUDDLY?

Disney's Mighty Ducks aim to rehabilitate the sport's image

Is this the future of professional hockey? Purists of the sport, who gave their heroes such nicknames as Boom Boom, Hatchet Man, and the Broad Street Bullies, no doubt will cringe at a team that plays in a place called The Pond. Or that is named after a kids' movie, *The Mighty Ducks.* But come Oct. 8, fans in Anaheim, Calif., will be cheering the National Hockey League's newest team, turned out in uniforms designed by the same costumers who dress Minnie and Mickey. What about high-sticking and savage cross-checks? To see such moves, fans will have to look beyond the ice-skating cheerleaders and the organist who flies on overhead wires like Peter Pan.

Only Hollywood—or more precisely, Disneyland—would try to make a bloodlusting game like hockey look cuddly. But Walt Disney Co., which this year won the rights to enter the NHL with its Mighty Ducks franchise, intends to turn hockey into family entertainment. An animated scoreboard will light up with flying ducks. Performers will cavort between periods. "It was a test to see if we're really as good at marketing as we think we are," says Disney Chairman Michael D. Eisner. "I mean, did we make Mickey Mouse so popular or did he make us?"

Hard to tell. But even before it takes the ice for its first official game, Disney's team is solidly profitable, Eisner says. Riding the region's pro hockey enthusiasm following the Stanley Cup appearance this spring of the Los Angeles Kings, the Mighty Ducks have sold an impressive 12,500 season tickets at up to $6,800 apiece. The team's first five games are already sold out at the 17,174-seat Pond, while corporate sponsors have paid $99,000 a pop to reserve 52 of the 84 specially outfitted skyboxes.

Where Disney is no doubt winning so far is in the synergism contest. To sell season tickets, the team culled lists of those buying group tickets to nearby Disneyland. Disney's KCAL-TV station in Los Angeles will air many of the games, and it is promoting the team with a special. The week before the first game, the team para through Disneyland. Meanwhile, Mi Duck merchandise is selling briskl Disney's 200 stores. The studio is re-releasing the video of its 1992 m *The Mighty Ducks.* And a sequel, at the Pond, arrives next year.

"Every owner in the league kn their future looks better with Dis generating that kind of interest in game," says L. A. Kings owner B McNall, chairman of the league's bo of governors. Indeed, pro hockey, in on sprucing up its image, has cou companies like Disney and Florida ther owner Blockbuster Entertainm Corp. for their marketing savvy. year, the league got a boost with San Jose Sharks, which used sophisti ed marketing surveys for the first to sell an estimated $100 million-plu team merchandise and 11,000 sea tickets. Pushing into Florida, Califor and other populous Southern m kets has improved television p pects, with ABC-TV and ESPN panding coverage. That has alre boosted the average value of of the 26 pro hockey teams $75 million, from $35 million to million, says Michael S. Meg who appraises sports franchises investors.

BEAT OUR GUEST. But the hoc mavens had to bend their rule get Disney on board. To sell D merchandise at its Disney st nationwide and at Disney Worl Orlando, Disney won a waiver NHL rules against selling prod outside a 75-mile radius. Disney pay the L. A. Kings $25 millio its $50 million franchise fee to vade the Kings' territory. Eisner is also ruffling feathers proposing changes to make game more exciting, such a shoot-off to settle ties, replacing the isting five-minute overtime rule. "Ev one in the league knows Michael brilliant ideas," says McNall, " there's a lot of tradition in hockey making changes isn't easy."

These days, the only battle Disn team is girding for is for the hearts Anaheim. The team, mostly youn players and castoffs, will probably mediocre, although it finished its ex tion season with a respectable 2 record. But even if the team lacks zazz, the show won't. For opening ni in Anaheim, Disney has planned a m cal extravaganza to the tune of *Be Guest,* from its film *Beauty and Beast.* Somewhere, a hockey god m be wincing.

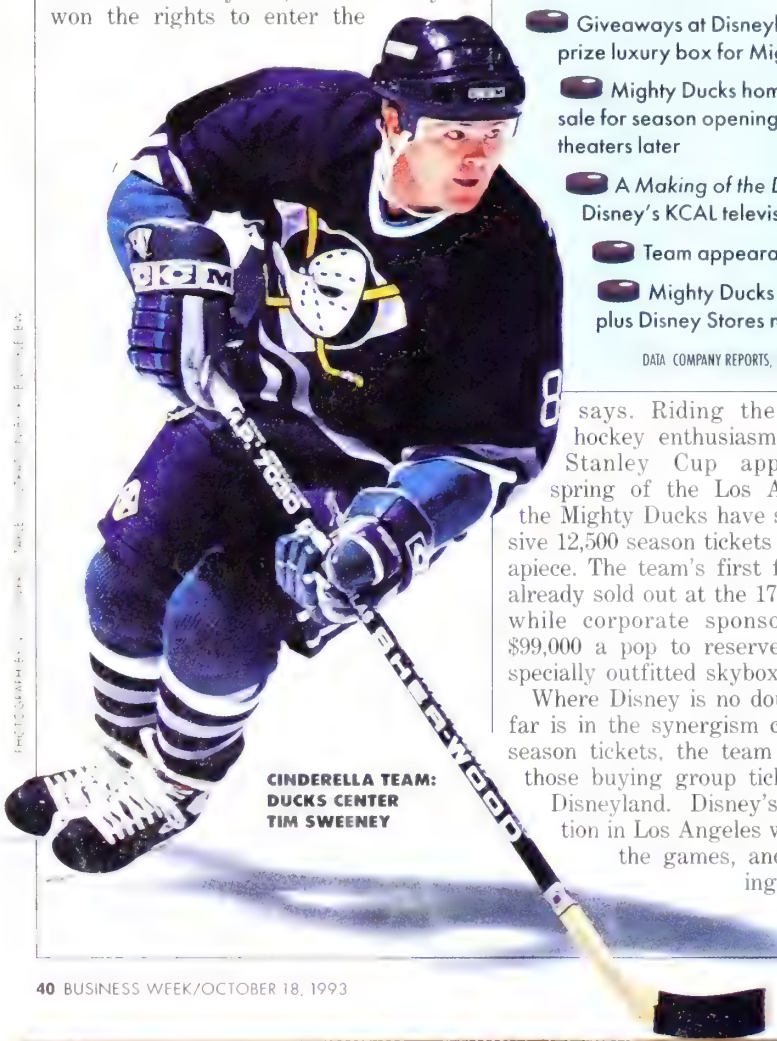
By Ronald Grover in Los Angeles, Alice Cuneo in San Francisco

NO MICKEY MOUSE MARKETING HERE

How Disney plans to promote its National Hockey League team, the Mighty Ducks

- Giveaways at Disneyland, including grand-prize luxury box for Mighty Duck games
- Mighty Ducks home video to go on sale for season opening; sequel will hit theaters later
- A *Making of the Ducks* special on Disney's KCAL television station
- Team appearance in Disneyland
- Mighty Ducks merchandise at 200-plus Disney Stores nationwide

DATA COMPANY REPORTS, BUSINESS WEEK



CINDERELLA TEAM: DUCKS CENTER TIM SWEENEY

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*Built In America***

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Others have offered similar kind words. J.D. Power and Associates ranked the Camry the best model in initial quality in its price class.† In fact, Camry has ranked among the Top Ten models in initial quality for the last four years.

Rave Reviews

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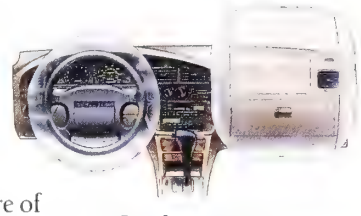

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ıckle Up! Do it for those who love you. ©1993 Toyota Motor Sales, U.S.A., Inc. **Automobile Magazine*, September 1992. **Most Camrys are built in the U.S. †**Price class claim based on 001 to $22,000 average median transaction price.** J.D. Power and Associates 1993 Initial Quality Study℠ Based on 33,691 consumer responses indicating owner-reported problems during the first 90 days of ownership. ††Always use your seatbelt. Driver- and passenger-side air bags are a Supplemental Restraint System (SRS). Shown with optional equipment

In Business This Week

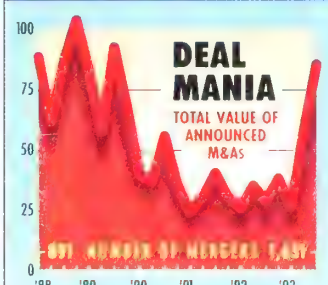
EDITED BY THANE PETERSON

BURY HIS MOUTH AT WOUNDED KNEE

▸ Unabashed motor mouth Donald Trump lived up to his reputation on Oct. 5 when he told a congressional hearing that organized crime is rampant on Indian reservations. Trump went on to predict that if the trend toward gaming on Native American land continues, "this will be the biggest crime problem in this country's history." The trouble is, said Trump, sharpies may be bamboozling Washington into letting non-Indians slip into running gambling operations on tribal reservations. "[Applicants] don't all look like Indians," he noted.

Concern for crime-fighting aside—and several lawmakers at the hearing called his jeremiads bunk—Trump's three Atlantic City casinos are feeling the heat from the casino owned by the Mashantucket Pequot tribe in Ledyard, Conn. Worse, New Jersey's Ramapo Mountain tribe wants to offer gambling even closer to Atlantic City.

CLOSING BELL



▲ BILLIONS OF DOLLARS

DATA: SECURITIES DATA CO.

CALL THE DOCTOR: M&A FEVER IS BACK

With the sudden resurgence of merger mania, 1993 is shaping up as the biggest year for mergers and acquisitions since the rock 'em, sock 'em 1980s. In the third quarter, the value of the 1,631 deals announced was $87.4 billion—the most put on the table since 1989.

What's behind the trend? Big changes in the entertainment, drug, and telecommunications industries precipitated huge deals, including the QVC and Viacom offers for Paramount, AT&T's $17.6 billion purchase of McCaw Cellular, and Merck's $6 billion acquisition of Medco. The soaring stock market also helps: 68% of the quarter's activity took the form of stock swaps.

THE CHIPS ARE DOWN AGAIN AT AMD

▸ Is Advanced Micro Devices' two-year recovery stalling? On Oct. 5, the Sunnyvale (Calif.) chipmaker reported profits about 12% below analysts' expectations—after having predicted better-than-expected results in August. AMD's problems: price-cutting and a cooling off in sales of some hot-selling chips. It also warned that profits on its clones of Intel's popular 486 chips may be squeezed next year. AMD's stock fell 4¾, to 22, on the bad news.

NO HONEYMOON FOR SOCIETY AND KEYCORP

▸ The biggest bank merger of 1993 is off to a fitful start. On Oct. 4, Cleveland's Society agreed to merge with KeyCorp in Albany, N. Y., creating the nation's 10th-largest bank, with $58 billion in assets. The new bank—to be called KeyCorp—will have 1,400 branches in 18 states. Management predicts 8% to 10% revenue growth by 1995, but Wall Street isn't so sure. Says Donaldson, Lufkin & Jenrette analyst Thomas Brown: "I see it as a high-risk, low-return merger."

HAZARDOUS-WASTE HANDLERS FEEL SICK

▸ Hazardous waste may be proving toxic to companies that handle it. On Sept. 30, WMX Technologies announced it would take a $550 million write-down in the third quarter and cut 1,200 jobs because of the flagging fortunes of its hazardous-waste-disposal unit. Then on Oct. 4, Safety-Kleen, Elgin, Ill., announced an unspecified write-down and job cuts for the fourth quarter. Why? Chemical and other companies have cut their toxic output far faster than expected, and disposal prices collapsed. Analysts say growth in the hazardous-waste in... will be less than 10% a ye... vs. 20% in the 1980s.

SLOW BURN: GROWTH IS OFF

HEADLINER

YOU'VE COME A LONG WAY, MR. TROTMAN

Talk about a rough road to the top. Back in 1969, Alexander J. Trotman was an ambitious young product planner for Ford in Europe anxious to move closer to headquarters. Indeed, when the Scottish-born manager's bid for a stateside transfer was denied, he threatened to quit. Ford finally offered him a U. S. job—but without moving assistance and only if he accepted a demotion. Trotman bought his own ticket and went.

Good thing. On Nov. 1, Trotman, 60, becomes Ford's chairman and CEO, replacing retiring Harold A. "Red" Poling. Now a U. S. citizen, Trotman has been working as chief of Ford's Auto Group.

What's he like? Trotman is often dubbed a "car guy a... characterization he dispu... "I'm as much a bean cou... as Red Poling is," Trotm... says. He'll need both sk... Ford's market share has b... on the rise, but pro... are a problem. In the first h... Ford earned ... $1.3 billion ... sales of $... billion. T... man says ... sults will ... prove soon. H... soon? He figu... the auto maker is se... benefit from the launch o... Winstar minivan in the U... in January and from the st... up of production of its Exp... er off-road vehicle at a sec... plant in 1995. Just the pre... timetable one would expec... a man who restores anti... clocks as a hobby.

By James B. Treece in Det...

USAir BEGINS TO CHANGE COURSE

▸ USAir's Sept. 30 announ... ment that it would cut 2,... people from its work force of 46,000 may be just the st... of changes at the carrier. ... airline is about to finish a sweeping internal study th... could lead to more restruc... ing by yearend. Meanwhile, ... negotiations between ... U. S. and British governme... over a new air treaty, Lon... wants the U. S. to give Bri... Airways the O. K. to exp... its $400 million stake in U... by an additional $450 mill... BA may even seek contro... the airline. In return, ... Brits might accede to Wa... ington's demand that U... carriers be permitted to ... anywhere in Britain. Ta... start on Oct. 13.

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EDITED BY STEPHEN H. WILDSTR

A BOON FOR TELECOM, A BREAK FOR TAXPAYERS

Ever since the early days of America, the nation has been giving away valuable assets to private interests. From the land rushes of the 19th century to the granting of free broadcast licenses, government has rarely tried to get a fair price for the public patrimony.

But the insatiable demand for revenue and growing insistence that government behave in a more businesslike fashion is bringing the giveaways to an end. Already, a bold experiment by the Federal Communications Commission to sell a chunk of the broadcast spectrum is setting off a mad scramble among companies looking to ride the hottest wave in communications. Next May, the FCC will open the bidding for licenses to provide Personal Communication Services (PCS), a form of wireless phone services that promises to be cheaper than cellular.

HORN OF PLENTY. The stakes are huge. Telecommunications experts expect the PCS market to be worth at least $100 billion in about a decade. The feds hope to reap $10 billion just from selling rights.

That's why companies are going to extraordinary efforts to plan for the auction. Even though the FCC won't decide on the details of the sale until February, MCI Communications Corp. has assembled a deep-pocketed consortium that CEO Bert C. Roberts Jr. hopes will allow the company to put together a national PCS network. To get ready, the No. 2 long-distance company is running mock auctions at its Washington headquarters. A major goal of the drills: not to let emotion draw MCI into a ruinous bidding war. "It's been a learning experience," says MCI Vice-President Steven A. Zecola.

But the heat of the auction may make restraint difficult. The Baby Bells, all of which own cellular properties, will surely be aggressive bidders. AT&T hopes to buy enough PCS licenses to fill in regional gaps in its newly acquired McCaw Communications' cellular service. And startups, such as Washington Post Co.-backed American Personal Communicati Inc., are trying to figure out how to get a piece of the act

The structure of the auction also works against a ratio approach. The biggest players are most interested in the licenses that will be awarded in each of 47 major markets blanket the U. S. But to ensure that smaller bidders have a crack at licenses, the FCC is also offering five licer in each of 487 smaller markets, which range from indivic cities to big chunks of sparsely populated territory.

Together with the two existing cellular franchises, scheme creates the possibility of nine c peting wireless phone services in every r ket. That's likely to provide excess capa even if PCS has the same explosive gro as cellular technology. The likely outc will be a vigorous secondary market i censes, with the MCIs and AT&Ts buying rights of the smaller successful bidders similar phenomenon followed the issua of cellular licenses a decade ago. But t the government gave away the rights lottery, and all the profits went to the in winners. This time, Uncle Sam is mak sure he gets his share up front.

MCI'S ROBERTS: MOCK AUCTIONS

NO CRUMBS. Right now, the FCC is atter ing to maximize its take. It's talking to vestment banks—including Morgan Stan & Co. and Goldman, Sachs & Co.—and e consulting with academic gaming experts to come up with optimal process.

But in an important sense, the government is alread guaranteed winner. For the first time, the Treasury wil compensated for use of the broadcast spectrum, one of the tion's most valuable resources. The public will get a new cheaper form of wireless communications. And if the sales duce anything close to the hoped-for return, look for m more auctions to come.

By Mark Le

CAPITAL WRAPUP

THE HOUSE

While House Minority Whip Newt Gingrich (Ga.) plots a campaign for the job being vacated by retiring Minority Leader Robert H. Michel (Ill.), a scramble for Gingrich's post is under way. The early front-runners are two very conservative and very partisan representatives: Robert S. Walker of Pennsylvania, Gingrich's sidekick and an ace vote-counter, and Tom DeLay of Texas, a skilled legislative strategist. The GOP's moderate wing is likely to come up with a contender of its own. Possible candidates include Jerry Lewis of California, who lost the No. 3 leadership job in a right-wing coup last year, and J. Dennis Hastert of Illinois. Regardless of the outcome, the already ultraconservative House Republican leadership seems certain to move further to the right.

TRADE

Whales don't seem to have much to do with the North American Free Trade Agreement. But they may be the latest political problem for the troubled pact. Some environmental groups backed NAFTA after being assured that its environmental protections would be vigorously enforced. Now, they are upset by the Administration's refusal to slap sanctions on Norway for allowing a limited hunt of minke whales in defiance of an inter tional agreement. After Norwegi Prime Minister Gro Harlem Brundtla visited Washington, President Clint said he wouldn't punish its Europe ally until the U. S. has "exhausted good-faith efforts" to resolve the d pute through negotiations. But en ronmentalists worry that an Admin tration that won't use sanctions to ba a global ban on whaling may be equ ly reluctant to deploy the enforceme powers under the proposed trade pa "This calls into question the willin ness to use sanctions to safegua NAFTA," says Michael Sutton, acti vice-president of the World Wildl Fund.

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GERMANY

TIME TO LEAVE THE COCOON?

Germany's biggest union enters an era of smaller expectations

A declaration of war. That's how officials of I. G. Metall, Germany's largest union, described the announcement by Gesamtmetall, the country's biggest employers' federation, on Sept. 28. What Germany's bosses did to arouse such ire was to cancel union wage and vacation contracts—for the first time ever.

The cancellation sets the stage for a struggle to wring give-backs from unions used to some of the best working conditions on earth (table). While it's a tough move, Germany's managers don't call it an act of war. "It's an alarm—an S. O. S. [signaling] that industry can't survive with the existing wage and benefit burden," says Dieter Kirchner, Gesamtmetall's presid

Hostile act or cry for help, the samtmetall's action has angry worl preparing for combat. Although nego tions on a new metalworkers' wage tract for 1994 don't begin until Nov ber, a flurry of brief warning str broke out to protest the contract ca lations. In more prosperous times, ployers might have taken the hint. time, however, Germany Inc. swear isn't going to budge. "The price for sensus is too high," warns Hans- Henkel, the German boss of IBM Eur

FOREIGN THREAT. Employers are bet that Germany's labor leaders eventu must make concessions or risk see major cracks develop in the German bor model. For starters, job losses mounting dramatically. In sectors ered by the I. G. Metall contracts, inc ing autos and machine tools, Germ lost at least 116,000 jobs from M through July. And the recession isn't only reason for losses. There's so thing even scarier: many as 60% of man industrial j are threatened competition fr Eastern Europe, A and the U. S., con tants say. Thanks generous wage ag ments and sharp preciation of mark, labor costs Germany run higher than in U. S. and 33% hig than in Japan.

WHAT'S AHEAD FOR GERMAN WORKERS

- Wage freezes or increases at a rate below inflation
- Fewer vacation days, now 30-plus per year, and smaller vacation bonuses, now 50% of monthly salaries
- A longer workweek than the 35 hours currently scheduled to begin in 1994
- Loss of such perquisites as subsidized cafeterias and transportation

DATA: BUSINESS WEEK

In opening up tracts for renego tion, employers h specific goals: lopp off holiday time, ting workers' mar tory vacation-bo pay, and holding wage increases be the rate of inflation. But that's only beginning. Companies want to break unions' rigid, top-down control over dustrywide contracts, so instead of ting pay down to the last pfennig, union leadership would simply negot a broad framework for wage increas

Such latitude would give managem a chance to set wages at the local l with workers' councils. These employ are often more sympathetic than ur headquarters to their employers' fi cial pain. "I'm convinced it's necess to cut costs and relieve pressure on c panies," says Heinz Mayer, work council chairman at money-losing mens Nixdorf Information Systems.

workers must accept a decline in ıcome, he says. Already, workers' ls have allowed weekend work at ıber of plants, including IBM and ett-Packard Co. And as many as of east German companies have l in-house agreements that ignore contracts.

its part, I. G. Metall continues to employers' efforts to win greater ıutonomy on wages. "It would de- the whole role of wage agreements iety," says Klaus Lang, a senior Metall officer. Unions fear a down- spiral of wages and benefits akin at which has hit the U. S. and Britain.

. Metall bosses also argue that in- / is to blame for some of the de- of German competitiveness. Many an companies let innovation lag ailed to adopt lean production ds. So, I. G. Metall wants to coop- to boost productivity and innova- 'Cutting wages isn't the solution," Lang. "The Czechs will always be er than us." Indeed, existing con- have already given companies new ıs, including that of having up to of the work force put in 40-hour ; up from the negotiated level of ırs.

S TO BLAME? But so far, union lead- e reluctant to let more companies iate for different pay scales. To a bitter two-week strike in April t Germany, union leaders at first d to an escape clause for troubled ınies there that couldn't afford to wages 21.7% under an existing ment. But since then, the union efused to allow two-thirds of the German companies applying for the tional provision to use it.

anwhile, some companies are sim- pting out. IBM's German subsidi- or example, divided itself into five ınies in June, leaving only one in- Gesamtmetall, which is bound by agreements with I. G. Metall. "I like my company dying for an ob- collective agreement," says IBM's el. The move freed 18,600 IBM ers from union control. Only the ction unit, with 6,000 workers, is ed by I. G. Metall wage agree- s, while employees in the other di- s will soon work 40-hour weeks.

more companies follow IBM and) make end runs around the sys- . G. Metall chief Klaus Zwickel and labor leaders will have to ham- out a new consensus by the mid- or risk seeing their power ebb at celerating pace. No matter who is ıme, the German model that cod- workers for churning out high qual- a high price is broken. A painful of repair lies ahead.

By Gail E. Schares in Bonn

WALL STREET MONEY IS ON A FAST BOAT TO CHINA

The Hong Kong market is the gateway for a rush of funds

For more than an hour, a group of Wall Street money managers was rolling along bumpy dirt roads in two buses through the countryside of central China. The delegation was heading to the city of Wuhan's half-finished airport, one of many much-needed infrastructure projects in the area. Then, one bus got stuck in the mud. "Anyone who manages more than $1 billion has to get out and push," quipped John S. Wadsworth Jr., Morgan Stanley & Co.'s managing director for Asia. That included practically all of the 19 delegation members, who among them manage nearly $500 billion in assets. Fortunately for them, the bus soon got moving again.

MORGAN STANLEY'S BIGGS: "MAXIMUM BULLISH"

On the September tour through three of China's largest cities, the money managers saw many rough edges. That didn't dampen their enthusiasm. For example, Barton M. Biggs, Morgan's director of global research and strategy and the delegation's leader, declared on Sept. 30 that he was "maximum bullish" on China. Since then, U. S. and European money has cascaded into the Hong Kong stock market—the best place to take advantage of "China plays." As a result, Hong Kong's Hang Seng Index jumped 6.6% in four days, to 8041, smashing previous records (chart).

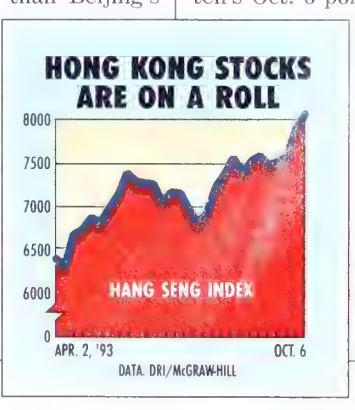
WHERE ELSE? Prices soared despite a spate of news that normally would send them reeling. With talks between London and Beijing showing little progress, China has been making threats over Hong Kong's political future. But Wall Street's bulls now may have more sway over Hong Kong stocks than Beijing's blustering. Western institutional investors have concluded there are few other places in the world offering the returns of China and Hong Kong. Managers of some major brokerages say several institutions have invested up to $250 million each in the past two weeks alone. "The U. S. is the largest single source of new investment in Hong Kong," says Baring Securities (HK) Ltd. analyst Adrian Faure.

Greater awareness is a big factor. In early September, more than 100 U. S. pension fund managers attended seminars in Beijing and BUSINESS WEEK's Asian Symposium of Chief Executives in Shanghai. Many brokers have been pushing Hong Kong. But Morgan Stanley triggered the latest binge by sharply boosting the Hong Kong-China weighting in its Emerging Markets Model Portfolio from 11% to 16% and in its non-Japan Asia portfolio from 32% to 40%. That came after Morgan executives and clients returned from their eight-day China swing.

For now, institutional players in the Shanghai market may only legally buy a few special "B" shares for foreigners. So investors looking for lucrative China plays are snapping up Hong Kong blue chips heavily involved on the mainland, such as developers Wharf (Holdings) Ltd. and Hutchison Whampoa Ltd. But getting a piece of the action in China itself is now on their agendas. "We'd much prefer to put our money directly into China," says David F. Marvin, whose Wilmington (Del.)-based Marvin & Palmer Associates Inc. invests more than 75% of the $2 billion it manages overseas. "It is the mother lode of emerging markets."

Politics and moves to slow China's overheated economy may still play short-term havoc with the Hang Seng. A market correction could be in order if Hong Kong Governor Christopher Patten's Oct. 6 policy address riles Beijing. Indeed, Baring Securities already regards Hong Kong banks as overvalued. And the Chinese economy is still growing at a 14% rate despite efforts to tame it. But even a cooled-down Chinese economy will have sizzle for Western investors.

By Pete Engardio in Wuhan



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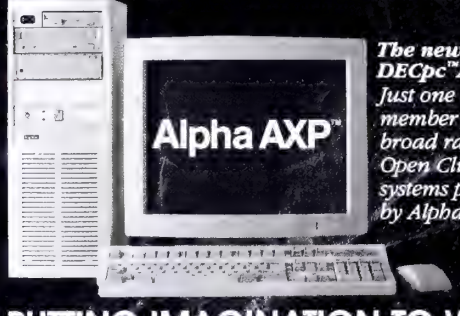

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BRAZIL STARTS TO LOOSEN THE LEASH ON ITS ECONOMY

Brazil's economy is like a jaguar in a zoo, says San Diego investor Kent Wilson, who holds shares in dozens of Brazilian companies: "There's all that strength, but it's kept in a cage."

The cage is Brazil's 1988 constitution, a document that blends nationalism, protectionism, and big government. Its tax and revenue provisions virtually mandate that Brazil run a huge federal deficit—$21 billion in the 1994 budget. That in turn is feeding 30%-plus monthly inflation. The constitution also restricts foreign investment in key sectors such as mining, oil, and telecommunications.

But at least some of the shackles are expected to be loosened when Brazil's constitutional congress convenes this month. Fernando Henrique Cardoso, President Itamar Franco's most durable Finance Minister, will lobby the 584-member assembly to write inflation-fighting provisions into the charter. Cardoso, a veteran legislator and academic who is respected abroad, took over as top economic policymaker last May after a quick succession of three other Finance Ministers under Franco, who succeeded the impeached President Fernando Collor de Mello a year ago. He has reassured the business community by resisting pressures for a quick-fix wage-price freeze, insisting on the need for belt-tightening fiscal reforms instead.

IN A RIO SLUM: NEEDED SPENDING CUTS COULD TRIGGER A BACKLASH

"NEW SOCIETY." The constitutional congress—made up of the current senate and chamber of deputies—is "a unique opportunity to establish the basis of a new society," says Carlos Eduardo Moreira Ferreira, president of the São Paulo Federation of Industry. It appears likely to loosen the telecommunications monopoly of state-owned Telebrás, open up mining to foreign investors, and give outsiders a crack at such slices of the energy business as gas pipelines.

Such prospective changes show how far economic nationalism has ebbed since 1988. "Today, you can discuss the pri ization of [state oil company] Petrobrás," says political scie Bolívar Lamounier. "Five years ago, that was taboo."

While free-market backers have an opening, they still only a slim majority in congress. And they face legislat fears that spending cuts and tax hikes to rein in the de could trigger a backlash next October, when a new Presid governors, and congress will be elected. will move forward, but a definitive solu is impossible now," says Claudio Vaz, hea the auto-parts makers' association.

What's more, opposition to free-ma reforms inside the congress and across zil has a strong voice in the Workers' P (PT) and the Democratic Labor Party (P both led by presidential aspirants: the Luís Inácio "Lula" da Silva and the P Leonel Brizola, Rio de Janeiro's popu governor. Lula, a militant leftist and runner-up in the 1989 presidential vote, leads in polls for the 1994 presidential r

LINCHPIN. Still, foreign investors have piling into Brazil, betting on a possible to Telebrás' monopoly and other chan They have boosted publicly traded mino shares of Telebrás to $35, from $19 in Ja ary. Congress is expected at least to o up the cellular-phone business to outsid Like Italy's economy, Brazil's seems to c along despite its politics. It grew at a b 5.5% in the first half of 1993 and is expected to turn in a 4 to 6% performance for the full year. Fueling the upturn exports and company restructurings that boosted productiv

Now, Brazil's corporate chieftains sense that a long-awa political change is near. And if the constitutional congr unleashes more of Brazil's latent economic power, Card could become a strong presidential contender.

By Bill Hinchberger in São Pa

GLOBAL WRAPUP

A ROUGHER GAME FOR NINTENDO

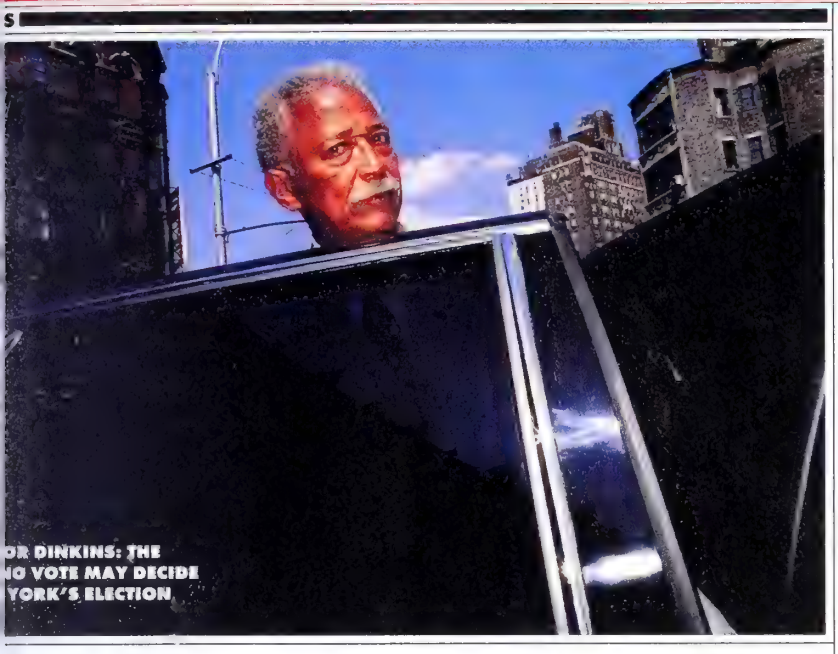
After 10 years of incredible earnings, Japanese game maker Nintendo Co. has hit a snag. The little giant from Kyoto earned $1.56 billion in pretax profits last year but slashed its 1993 profit forecast to $1.14 billion, citing the strong yen. Analyst David Benda of Barclays de Zoete Wedd Securities (Japan) Ltd. says the problems run deeper: Potential customers are waiting for better games due out from rivals. Next month, Atari Corp. will launch a 64-bit machine called Jaguar, which will have a CD-ROM add-on by 1994. Matsushita Electric Industrial Co. this month launched a 32-bit machine designed by San Mateo (Calif.)-based 3DO Co. with vastly better graphics. And archrival Sega Enterprises Ltd. has a 32-bit machine, to be ready in 1994. Nintendo hopes to leapfrog rivals with a 64-bit machine, but that won't be before Christmas, 1995.

WILL TAIWAN TRIP UP BAe?

A $1.2 billion joint venture between British Aerospace PLC and Taiwan to build jets in Taiwan is suddenly in danger of fizzling. The Taiwan Aerospace board says it will vote Oct. 19 whether to continue the Avro project, under which BAe contributes technology and its regional aircraft group and each side kicks in $250 million. If the deal dies, BAe may close its operati there, lay off 6,000 workers, and wri down $1 billion.

THE NEW PARAGUAY

For decades a rigid dictatorshi Paraguay is embarking on a priv tization and foreign-investment ca paign under recently elected Preside Juan Carlos Wasmosy. Although "it difficult to change an economy [tha was in state hands for 40 years," Wa mosy says he'll privatize the landlock nation's steelmaking, railroads, ele tric-power distribution, and phone Paraguay also is one of the developi countries opening stock markets: Asu ción's new *bolsa* starts trading Oct. 1



OR DINKINS: THE
NO VOTE MAY DECIDE
YORK'S ELECTION

IGHT LIGHTS, HITE MAYORS

l division is just one reason big-city gains by blacks are fading

ır years ago, Bonnie Lockhart as one of the 27% of New York hites who helped make David N. s the city's first African-Ameri- ıyor. But now, because of Dinkins' esponse to crises ranging from d construction projects to anti- ı rioting in Brooklyn's Crown s, the publishing executive may ve the mayor her vote a second Says Lockhart: "It's ironic that all major cities have had black may- it they haven't been able to solve oblems of the inner city."

ng urban ills is an awfully big or- r any one person, but expecta- ıave been high for Dinkins and trailblazing black mayors. During 80s, four of the nation's five larg- ies elected African-American lead- ately, however, black pols have xperiencing a reversal of fortune. ent contests, white candidates ecaptured city halls in Los Angeles, Chicago, and Philadelphia. And in Houston, a white businessman edged out a legislator who was trying to become the city's first black mayor.

FAULT LINE. Those results raise unsettling questions about urban racial politics. Is a white counterrevolution trying to roll back black gains? Or are the results due more to voter disgust with city governments than to skin color?

The answer may be a bit of both. In most urban centers, racially polarized voting has become the norm. "Race is the fault line of big-city politics," says Jay Severin III, a GOP consultant. Despite decades of racial progress and power-sharing, many voters are reluctant to cross racial lines. "In urban areas, probably 40% to 50% of both the black community and the white community will reflexively vote for a candidate of their own race, if given the choice," says David Bositis of the Joint Center for Political & Economic Studies.

Still, other factors transcend race. With urban America in fiscal crisis and physical decay, voters seem to be more concerned with kitchen-table issues such as economic development, safe streets, and decent schools than the social issues that catapulted many black mayors to power. Howard University political scientist Ronald Walters sees many mayors as victims of economic conditions that sow "the seeds for a possible backlash against black politicians."

Desperate for jobs and safe streets, voters are willing to try new solutions. Philadelphia turned to a former district attorney who promised to take on the municipal unions and privatize some services. Houston chose a businessman who vowed to move deskbound cops to the streets. In New Haven's Sept. 14 Democratic primary, John DeStefano Jr. defeated a black candidate by promising to rebuild the city. One of his ideas: converting abandoned buildings into affordable housing. DeStefano even received a majority of the black vote.

BROWN POWER. In some cities, voters are doing the unthinkable: Voting Republican. Los Angeles did it for the first time in three decades. The most remarkable GOP triumph came in Jersey City, N. J., where Bret Schundler, a 34-year-old investment manager, won 69% of the vote in a city in which only 6% of registered voters are Republicans. Promising property-tax cuts, business incentives, and school vouchers, Schundler won nearly three-fourths of the Hispanic vote and received 40% in one predominantly African-American housing project. "You're seeing the unraveling of Democratic Party dominance in the major cities," he says. "Big-city machines are breaking down because the problems are so serious in the cities."

Black dominance of big-city politics is also being challenged by brown power. A steadily growing Latino population has become a key swing vote—and one that cannot be taken for granted by the Democratic Party or by other minority groups. In Houston, Latino voters tipped the election to Bob Lanier, a white businessman, by giving just 8% of their votes to African-American candidate Sylvester Turner. "Racial polarization is most pronounced between blacks and Hispanics," says political scientist Robert Stein of Rice University. "The notion

NEW YORK	LOS ANGELES	CHICAGO	PHILADELPHIA
DAVID DINKINS Elected 1989 ıt race with white olican Rudolph Giuliani	TOM BRADLEY Elected 1973 Replaced by white Republican Richard Riordan	EUGENE SAWYER Appointed 1987 Replaced by white State's Attorney Richard M. Daley	WILSON GOODE Elected 1983 Replaced by white prosecutor Edward Rendell

MARK PETERSON/SABA

of a rainbow coalition is not a reality."

In Los Angeles, 43% of Hispanic voters backed white Republican Richard Riordan over Asian-American Democrat Michael Woo. And an Oct. 6 Harris Poll found New York Latinos evenly divided between Dinkins and Republican Rudolph Giuliani, whose ticket includes former Representative Herman Badillo. "Latinos are the Republicans' Great Brown Hope," says Severin.

To be sure, African-Americans are still making political breakthroughs. Virginia's L. Douglas Wilder became the first black governor since Reconstruction, and Carol Moseley Braun (D-Ill.) became the first black woman senator. A host of white-majority cities, among them Seattle, Kansas City, Mo., and Denver, chose black mayors. Cleveland's Michael White and Baltimore's Kurt Schmoke lead a wave of new-generation African-American politicians who have built broad support across racial lines.

With the retirement of Detroit's Coleman Young and Atlanta's Maynard Jackson, New York's Dinkins becomes the senior statesman of big-city black mayors. But the honor may be short-lived. Polls show Dinkins in a tight race marked by stark racial divisions: More than 9 out of 10 black voters say they've decided to back Dinkins, while 7 of 10 whites are in Giuliani's camp.

CLINTON'S LAMENT. While the candidates themselves have avoided racially charged rhetoric, President Clinton managed to reignite tensions. During a Sept. 26 visit to the city, the President lamented the possibility that "too many of us are still too unwilling to vote for people who are different than we are." Republican Party Chairman Haley Barbour called Clinton's remark "the rankest political slur against the people of New York. Democrats always try to play the race card, but that just doesn't work any more." After other Dinkins supporters hurled ethnic epithets at Giuliani backers, the Republican fired back. He accused Dinkins of adopting a deliberate strategy to divide people. "People in this city feel more racially, religiously, and ethnically divided than they were four years ago," Giuliani told BUSINESS WEEK.

Both candidates fear a backlash and try to avoid racial issues. Giuliani would rather discuss economic development; Dinkins would rather note his accomplishments in health care. Still, as University of Pennsylvania historian Theodore Hershberg notes: "The coals of racial tension are always there, and if you want a fire, you just have to fan them." The growing number of city halls being vacated by African-American mayors will do little to quench the flames.

By Richard S. Dunham in New York, with Joe Weber in Philadelphia and Chris Roush in New Haven

STRATEGIES

SAFEWAY'S LOW-FAT DIET

Burd is slashing costs and reducing prices across the board

Grrrrrr. Here comes Steve Burd. Clever. Candid. And possessed with an almost instinctual drive to chomp costs out of the flabby hide of underperforming corporations. Chief executive of Safeway Inc., he is just the kind of animal the supermarket chain's shareholders, particularly Kohlberg Kravis Roberts & Co., want to have roaming the aisles.

At a time when traditional supermarkets are reeling from the weak economy, low food-price inflation, and a host of challengers from warehouse clubs to convenience stores, Burd has transformed the Oakland (Calif.)-based chain into one tough competitor. He is slashing costs while using the savings to reduce prices across the board. What's more, Burd is steadily improving service. At Safeway's eastern division, for example, checkout lines are held to three shoppers. Anyone who gets on line after that will get his or her groceries free, up to $25, if a new register doesn't open (table).

Capital spending for 1993 is almost 40% less than last year's $553 million

Burd's year-long efforts have already produced some impressive results. On Oct. 5, Safeway reported that profits in the third quarter rose 110%, to $42.1 million, as sales climbed 3%, to $3.6 billion. For the entire year, analyst Brian E. Suher of Piper Jaffray Inc. figures net income should more than triple, to $145 million, as sales increase 2%, to $15.4 billion.

TOP PRIORITY. And that kind of record can only cheer KKR, which took the company private in 1986 in a $5.7 billion leveraged buyout and still owns 65% of its stock after two public offerings. Safeway's stock has soared more than 70%, to about 20, since Burd came on as president in October of 1992. Indeed, at a time when shares in RJR Nabisco Holdings Corp. are sagging, Safeway, whose 1,100 stores stretch across the West Coast, Canada, and around Washington, D. C., is turning out to be a jewel in KKR's investment portf

The 43-year-old Burd has had of experience working on KKR in ments. A former management co tant at Arthur D. Little Inc. who struck out on his own, he helped prove results at several KKR proper including Dillingham Construction, U Texas Petroleum, and retailers suc Stop & Shop and Fred Meyer. Sh after the Safeway LBO, Burd helpe investment firm unload the chain's tered Texas stores and velop better compensa packages to tie execu pay to performance. Safeway's profits plum ing, KKR brought him a year ago, this tim president.

Even though he wa No. 2 executive after

A. Magowan, whose grandfather found the company in 1926, Burd charge. He made sure the enmpany reported to him, and he to ran. By May, Magowan—who deto be interviewed—was running n Francisco Giants baseball franand the board named Burd CEO. ran remains Safeway's chairman. ing costs has been Burd's top prile slashed executive perks, taking 350 company cars. He also cut uarters staff by 25%, to 850, sav5 million to $20 million a year. this year, he required the comtop five executives to give up nuses they had already earned 92, when profits fell 20%. "When olders lose, managers should lose," urd, who has instituted a new boan tightly tied to performance.

h cost cuts at the top, Burd acedges, are largely symbolic. But olic sacrifice has been crucial in ing concessions from labor. Last ary, Burd threatened to close all feway-operated stores in Alberta, a, unless the union agreed to conns. The union gave in to longer and lower pay. For example, a r who earned $638 for a 37-hour week now earns $608 working 40 . Those wage rollbacks add up to nual saving of $40 million. Other leaders are watching Burd warily, ed he'll try to press Alberta-style ssions. "He's not a food man, he's a y man," says William J. Olwell, exe vice-president of the United Food & Commercial Workers. "But I won't dump on him. Yet."

Although he is taking a tough line with labor, Burd is trying at the same time to boost employee morale. He has held dozens of "roundtable" meetings to solicit suggestions and is urging divisions to assemble teams of managers and employees so that all workers—even stock clerks—are encouraged to offer their ideas. One result: Safeway now requires vendors to put its own tags on apples and grapefruit, freeing produce clerks for other tasks.

Besides cutbacks in labor costs, Burd is also looking for ways to move costs onto vendors. With competition for shelf space fierce, retailers such as Safeway are trying to force concessions from all but the manufacturers of the most popular brands. Ronzoni pasta, for example, was recently removed from Northern California Safeway stores to make room for another brand, a cheaper pasta from Turkey. Clifford K. Larsen, marketing vice-president for Hershey Pasta Group, which owns Ronzoni, says his brand lost out because it was unwilling to pay for shelf space. Safeway denies it charges for shelf space but admits it might tell a vendor to fork over money to help pay for advertising. Larsen expects the stores to get even tougher. "They're willing to sell everything, including advertising on the bottom of the manager's shoes," he gripes.

Safeway is also looking for ways to stretch out payments to vendors. Craig Brennan, Safeway director of marketing services, appalled suppliers at an industry convention recently when he floated the idea of taking products from vendors on consignment—in other words, not paying for goods until they've been sold to consumers.

Most of the savings that Burd is garnering from cost reductions is being used to lower prices. Burd acknowledges his stores may never match the deep discounts of such warehouse clubs as Price Co. and Costco Wholesale Corp. But he is betting the chain will make up in convenience, selection, and service for what it doesn't offer in pricing.

TRIMMED DEBT. While he focuses on operations, Burd has put the brakes on expansion. Capital spending for 1993 will be trimmed almost 40% from last year's $553 million, as fewer stores are built or remodeled. How come? Burd says he wants to maximize returns at all Safeway properties. That means some Safeway stores may get juice bars or Chinese take-out restaurants, but other projects may never get built. And Burd is casting a critical eye at properties that might return more to Safeway if the real estate were sold. Are the spending cuts just a short-sighted way to give earnings a quick boost? Analysts don't think so: They expect capital spending will increase next year. "They're saying 'Let's make sense with the money,'" says Piper Jaffray's Suher.

Despite Safeway's operating success, Burd still faces some daunting challenges. Stock offerings in 1990 and 1991 helped trim the debt load, now at $2.9 billion. But its debt-to-total-capital ratio stands at a lofty 91.3%. Still, Burd isn't too concerned. Safeway's cash flow is strong: $768.2 million last year, or 2.6 times its debt service.

Burd is determined to make Safeway a winner in the grocery wars. "There's no resting," he told analysts after announcing third-quarter results. "We need to continue to approach the cost savings." No hibernation for this critter.

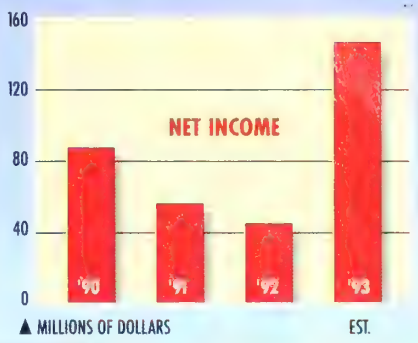
By Russell Mitchell in Oakland, Calif.

SPIFFING UP SAFEWAY... ...TO RING UP BIGGER PROFITS

CUTTING COSTS Rolling back wage rates and eliminating such perks as company cars. Requiring vendors to do more price labeling and other work done by store clerks.

BOOSTING SALES Passing its cost savings along in the form of lower prices. Also improving services, keeping stores well stocked, and making sure register lines are short.

EXPANDING CAREFULLY Slowing remodeling and expansion to focus on areas that offer highest returns.



DATA: COMPANY REPORTS, PIPER JAFFRAY INC.

STRATEGIES

ONE BURNED-UP BURGER BARON

Why Carl's Jr. founder Carl Karcher was ousted by his own board

There's little at Carl Karcher Enterprises Inc. that does not bear the imprint of its founder. The walls of the company's 649 fast-food burger outlets—called Carl's Jr.—are covered with old photos, such as one of Carl N. Karcher peddling hot dogs on a Los Angeles street corner circa 1941. Even Karcher's religious beliefs permeate the company's Anaheim (Calif.) headquarters. A devout Catholic, Karcher installed a life-size statue of St. Francis of Assisi.

But despite his prominent role in shaping the company, Karcher now finds himself isolated—virtually at war with a board comprising longtime friends and his own hand-picked successor. Within the last year, the 76-year-old founder has proposed various plans, from a leveraged buyout to a joint venture that he claimed would reinvigorate the chain. But the board has turned him down, with outside directors suggesting in interviews with BUSINESS WEEK that Karcher is more interested in enriching himself than the company. On Oct. 1, the animosity reached new heights when the founder was ousted as chairman by the board, setting the stage for a proxy fight for control of the company.

The dispute couldn't come at a worse time for the burger chain. In the fiscal year ended January, the company posted a $5.5 million loss, compared with a profit of $13 million the year before. Sales, including those of franchisees, were flat at $617 million. Worse for stockholders—including Karcher, who owns a 34% stake—the company's share price has slid to about 8¼, less than half the 1989 value.

SALAD DAYS. It's a sad chapter in Karcher's rags-to-riches story. A seventh-grade dropout, Karcher borrowed $311 and bought a hot-dog cart in 1941. In 1956, he opened his first Carl's Jr. Thanks to Karcher's innovations—he was the first to introduce a salad bar in 1976—and California's booming economy, the company flourished. Karcher, too, reaped huge rewards. He pocketed $3.4 million in proceeds from the company's initial public offering in 1981.

Eventually, though, Karcher's homespun instincts began to fail him. His expansion plans faltered. New products, such as rainbow trout, bombed. Then in 1988, Karcher was stung by insider-trading allegations by the Securities & Exchange Commission. The SEC charged that Karcher informed family members of the company's poor financial shape before announcing that 1984's third-quarter net income would be off as much as 50%. The family members allegedly sold the stock before it dropped. Without admitting any wrongdoing, Karcher and six family members agreed to pay a $664,000 fine.

Most damaging of all, though, were the California recession and savage price-cutting in fast food. Karcher insisted his customers wouldn't mind paying more for a Carl's Jr. burger. But existing-store sales have been dropping for t years. "As good an entrepreneur a was," says Alex. Brown & Sons Inc. lyst Steven A. Rockwell, "Karcher w able to change."

A management vacuum developed company's former treasurer says, Karcher resisted the board's pressu replace his cancer-stricken brother as ident. Karcher's relationship with board began to deteriorate in earne 1992. The stock was falling just as he suffering hefty losses on his personal estate investments. With much o wealth tied up in company stock, dire contend, Karcher began putting his ov nancial interests ahead of the compa Karcher denies the allegation.

Still, Karcher acknowledges his sire for more liquidity was one of reasons he enlisted the help of the Angeles investment firm of Free Spogli & Co. to engineer a lever buyout. The deal would have let K er sell $43 million worth of stock ba the newly formed company. The b rejected the $9.50 a share bid in cember as inadequate. Within days board appointed a new chief execu Donald E. Doyle, a former presider Kentucky Fried Chicken USA w Karcher and Freeman Spogli had ch to run the company after the buy Karcher retained the chairmanship.

Tension quickly developed betw the two as Doyle asked Karcher to attending management meetings, lea Karcher to complain of being ke the dark. An offer by Karcher to back $10 million worth of stock to company also fizzled. Karcher say decided against the sale when the b insisted he give up the right to votes for directors on his remai shares. "They wanted to negate my thority," he says. The deal ended up lapsing as the company's shares slid from 8, when the buyback talks be

The dispute between Karcher and board exploded into open hostility ov proposed venture with GB Foods parent of Green Burrito. Karcher

NEW CEO DOYLE

PHOTOGRAPHS BY STEVE CHENSEN/STEVE SMITH

ANATOMY OF A RIFT

DECEMBER 1992 Board rejects LBO offer by Carl Karcher and investment firm. Deal could have earned Karcher up to $43 million

MAY 1993 Company agrees to buy $ 10 million in stock from founder. He backs out as stock falls and board places restrictions on his remaining shares

AUGUST 1993 Board reject Karcher proposal to test combi restaurants with Green Burrito. would have received $6 million from Mexican chain's CEO if d gone through

SEPTEMBER 1993 Karcher ens proxy fight to oust board o new members if directors don't prove Green Burrito deal

g the Mexican foods at Carl's Jr. ts would boost per-store sales 35%. he deal was potentially profitable archer. It would have given him an ermined number of warrants on GB . The Mexican chain's biggest share- r, William M. Theisen, also discussed million loan to Karcher. The loan to be repaid in six months with ıer's stock. Theisen's attorney says roposal was never "a formal offer. It ust a point of discussion."

ETIC. In August, Doyle and the l rejected the proposal—in part be- a study done by the company ed of the low margins on Green to products. But they also were rned that a deal would spark a ral- Karcher Enterprises' stock. "We worried there would be hyping of tock without any results from the p," says board member Elizabeth nders. Indeed, at board meetings, ers says, Karcher said repeatedly his financial problems would be d if the Green Burrito deal went gh. Karcher says he was working e best interests of shareholders. He he and Theisen were willing to test oint venture in the marketplace ut any financial strings.

st month, Karcher called for the nation of three of the company's outside directors, all of whom have his close friends for over 15 years. ct. 1, the board responded by vot- Karcher out as chairman, asserting as interfering with management's term strategy. "It's pathetic how can turn on you," Karcher says.

r now, Karcher is considering his ns. They include a possible proxy to remove the board. Karcher may o find a buyer for the company. since he has defaulted on nearly illion in bank loans that are backed ree-quarters of his stock, it is un- whether Karcher will even have g control of his shares. Still, what- his response, the dispute is far over. And the longer it rages, the e it will be for the company that Karcher built.

By Amy Barrett in Los Angeles

RESEARCH

THE TRUST THAT ROARED

Wellcome's ample fund is a booster shot for British medical R&D

In 1988, Robert Turner quit one of the best jobs a scientist could have. He was helping Peter Mansfield, the inventor of nuclear magnetic resonance imaging, turn that nascent technology into one of the best diagnostic tools in medicine when dwindling research funds in Britain crippled the effort. "MRI had tremendous potential for brain research, but there wasn't a chance of doing it in Britain," Turner recalls. So the University of Nottingham researcher jumped ship to the National Institutes of Health in Bethesda, Md.

Five years later, he's going home. Next month, the 47-year-old scientist will become chief of MRI work at a new $27 million brain research center in London. There, he will have state-of-the-art equipment, a team of world-class scientists—and plenty of money. Says Turner: "Things in Britain have changed."

NEW LIFE. The reason is an obscure medical charity in London called the Wellcome Trust. Once known primarily for funding research into tropical diseases and the history of medicine, Wellcome in the past year has transformed itself. It is now dispensing a flood of funds to cash-starved scientists involved in such hot pursuits as molecular biology, brain research, and genetics. What's more, the trust has created three of its own huge multidisciplinary research centers in these fields. "The Wellcome Trust has saved medical research in Britain," enthuses Denis Noble, professor of physiology at Oxford University. It may do more than that: Wellcome is among a handful of charities in the U. S. and elsewhere that are seizing the lead from government funders by backing large, long-term research initiatives.

Britain has become the testing ground for this idea mainly because the budget of the Medical Research Council (MRC), the British government's funding arm, has failed to keep pace with the rising costs of medical research. Over the past decade, the MRC's funding has grown an average of 8% a year, to $350 million last year. But research costs have risen more, so that today, 1 in 13 research grants is funded in Britain, vs. 1 in 3 in the U. S., according to the Association of Medical Research Charities in London. British charities have picked up some of the slack, boosting outlays 14% a year in the past decade, to $400 million last year, including $175 million from Wellcome. But next year, the trust plans to tip the scale: It will hand out $330 million, moving it ahead of the Howard Hughes Medical Institute, the world's largest private source of medical research funds, says Dietmar Braun, professor of political science at the University of Heidelberg and an expert in medical research policy.

BROKEN WILL. The trust's goal is to fill gaps in government funding. For the past decade, for instance, the MRC has been unable to tie up its funds in long-term grants. That has made it nearly impossible for British scientists to explore the frontiers of medical research, where it can take a decade or longer to produce advances, says John Mu head of the lobbying group Save Bri Science. Wellcome's partial soluti to fund so-called centers of excell at hospitals, universities, and rese labs where scientists work on five- rolling stipends. In addition to the don brain center, these include a million facility to study the genetic of disease and a $75 million center will sequence genes (table). "We wa fund long-term science [in these ar says Ian MacGregor, a trust dire The trust also will give $400 milli fund medical research over five to the Burroughs Wellcome Fund i search Triangle Park, N. C., a siste ganization that itself gave out $6 lion last year.

It's all a big change since Ame entrepreneur Henry Wellcome fou the trust in 1936 and endowed it 100% ownership of the drug com that bears his name. For decades trust used the dividends of its hol in Wellcome PLC to fund mostly s term projects at the fringes of cine. When the value of those hol skyrocketed in the 1980s along wit er drug stocks, Wellcome's director suaded British authorities to let break Henry Wellcome's will, which ulated that the trust retain all its s in the company barring "unforesee cumstances." Roger Gibbs, chairm the trust since 1989, masterminde sales of Wellcome stock—in 1986 a 1992—that netted $4 billion and than doubled the trust's income.

Thus supported, the trust's three

WELLCOME'S RESEARCH AGENDA

FUNDING INCREASES

1991 budget–$150 million; 1992–$300 million; eventually $330 million per year

RESEARCH TARGETS

Neuroscience, infection and immunity, pharmacology, molecular and cell biology, history of medicine, tropical diseases

RESEARCH CENTERS

Center for Brain Research at the Institute of Neurology in London ($27 million, 30 staff members); Center for Genetic Research at the John Radcliffe Hospital in Oxford ($40 million, up to 300 staff members); Sanger Centre for gene sequencing at Hinxton Park, South Cambridgeshire ($75 million, 300 staff members)

DATA: BUSINESS WEEK

are drawing top talent from the and elsewhere. Mark Lathrop, di- r of research at the Centre d'Etude norphisme Humain in Paris, for in- :e, is among those lured to Britain. ıe [research] is more efficiently han- by people with expertise working in ıtral lab," says Lathrop, who will the gene center in Oxford.

ITIVE ISSUE. John A. Todd, a genet- esearcher at the John Radcliffe Hos- in Oxford, has been drawn to the : center by its modern equipment. s search for genetic mutations that e diabetes, Todd developed a tech- e to screen genes quickly. However, eded a $1.5 million automated gene encer. Relying on the MRC would required Todd to share a machine colleagues in different locations, ıg several years to his project. Now Todd and his 15 researchers are fi-

Improved facilities in London lured Robert Turner back home from America

ed by the trust, they their own machine— expect results by end.

he three centers ac- it for a fraction of the trust's new s, and Wellcome's directors haven't decided what to do with the rest. will they discuss their deliberations. ed, Chief Executive Bridget Ogilvie ines to be interviewed. That may ect an uneasiness with the trust's leadership role—and its implications British science. Now that its budget ly matches the MRC's, competition veen the two is likely to increase. y scientists prefer to work with the t, since its research priorities aren't ect to political pressures and it is vn for having less red tape.

he greater concern, however, is that the availability of trust funds will cause the MRC to spend less on basic research. Already, MRC officials admit to making modest cutbacks in cancer research, which has benefited from advances in molecular biology financed by the trust. "There is always a danger that the government will decrease funding because of the charities," says David Weatherall, a trustee of Wellcome Trust and regius professor of medicine at Oxford.

Even if that effect is small, critics fear that the trust and charities elsewhere will skew funding priorities by focusing on popular causes such as AIDS and genetics while neglecting vital but more mundane targets, such as mental health or screening patients for disease. "When charities make a lot of noise about a popular cause . . . government spending tends to follow," says Diana Garnham, head of Britain's Association of Medical Research Charities.

ON THE STREET? Wellcome's omnipresence also may make it harder for MRC to coordinate medical research. The trust is discussing spending priorities with the MRC and other funders, but it isn't clear if they'll see eye to eye. "Wellcome is not accountable to the government," says Nicholas Winterton, MRC's director of corporate affairs, "and that raises difficult issues." Indeed, Wellcome directors resist participating in a grand research plan orchestrated by the MRC. Says Weatherall: "I'm not sure that research is best done by committees."

Some scientists also grumble that the trust should do more to improve their job security. Most researchers at Wellcome's centers remain untenured employees of their universities, which means their jobs are vulnerable if they fail to win renewal of their Wellcome grants every five years. "As long as you continue to do good work, it shouldn't be a problem," says Radcliffe's Todd. "But if you don't get your grant extended, you're out on the street."

Still, scientists are so grateful for the money that they will overlook these and other issues for now—and possibly for a long time. The trust still has about 40% of its holdings in shares of Wellcome PLC. A third stock sale in the next few years is a distinct possibility. That would give a lot more researchers the benefit of Wellcome's largess.

By Fred Guterl in London

Don't get too comfortable with your company's retirement plans. Whether you run the company or run the plans, you've got to keep a steady eye on risk. Or regret it more each year.

Unrealistic thinking about longevity risk, inflation risk, early or late retirement risk — it can poison employee relations, threaten your balance sheet, your survival.

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To learn more, call Rich Marin at (212) 454-1613. You can't avoid risk by turning your back to it.

Bankers Trust Retirement Services

BY PETER COY

TEAM ENGINE SMALLER IN AN ANT'S WHISKER

The steam engine helped spawn the Industrial Revolution 200 years ago. Now, Jeff Sniegowski of Sandia National Laboratories has built a microscopic steam engine made of parts much smaller than a human hair. Researchers at Sandia, an Energy Dept. lab in Albuquerque, hope it will power micromachines that could, for example, grip or cut small objects—such as individual cells.

ıdia uses chipmaking techniques to build its engine on a of silicon. A microdroplet of water inside a chamber is d by a wire. A bubble of vapor forms and forces a piston f the chamber. When the water cools, a silicon spring the piston back. Paul McWhorter, Sniegowski's boss in ıb's Silicon Technology Dept., says the engine produces 100 times as great as do motors of the same size that on static electricity. One drawback: the droplets quick- ıporate. So Sandia is looking for some kind of oil instead .ter to make the motor run continuously.

NG SMOKESTACK WASTE RECLAIM STRIP MINES

ıokestack scrubbers installed on coal power plants to cut ılfur dioxide emissions can generate up to 22 tons of an hour—a mixture of ash, limestone, and gypsum. Big ll problem, right? Not to Ohio State University agrono- , civil engineers, and economists. They're experimenting using the waste to reclaim coal strip mines, to enrich the f farms, and to create a concrete-like building material. e researchers treated soil samples from coal mines with ber byproduct. That reduced the soil's acidity so much hardy grasses and alfalfa grew well, raising hopes that ber waste could restore strip mines that today resemble n moonscapes. The grasses were safe for animals to eat. water that leached out of the test sites met Environmen- rotection Agency standards for agricultural use, says researcher Warren Dick, an agronomist. Pending EPA val, the method will be used on real mines starting next g. The Ohio State team is also experimenting with spread- rubber waste on acidic farmland, either alone or combined nutrient-rich sewer sludge. A final use is to make it into d of concrete for roads or the floors of cattle feedlots.

PERCONDUCTORS MAY HELP DOTH OUT POWER SURGES

When a spike of electricity comes down a utility's distribution lines, a so-called recloser switch pops open to ct electrical equipment from being fried. The current ng into—but not through—an open switch damages its l, so reclosers must be replaced frequently, costing util- around $100 million annually. And since reclosers cut off power while they're open, they can wreak havoc on computers and other sensitive gear.

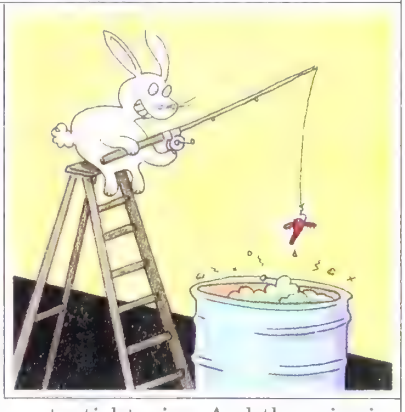
High-temperature superconductors may provide relief. The Energy Dept. recently awarded a two-year, $2.3 million contract to General Dynamics Space System Div., American Superconductor, and Southern California Edison to develop a superconducting device that tames current spikes. If it works, says Richard P. Hora, a General Dynamics vice-president, each current limiter should last 10 years. And because it will keep the juice flowing while it suppresses spikes, lights should blink out less often. Hora estimates that replacing all reclosers in North America with superconducting current limiters—at more than $100,000 apiece—would cost about $1.5 billion.

THIS WATER SOFTENER GOES EASY ON THE EARTH

The city waterworks of Hamburg, Germany, is testing a new method of softening water that removes minerals from hard water without producing pollution. The technology was developed at Israel's Weizmann Institute of Science, and a Dutch-Israeli venture, Ecosoft, hopes to take it commercial. Ecosoft, based in Rehovot, Israel, is owned by Erecor of the Netherlands and Israel Tambour Ltd., a paint manufacturer.

In the conventional ion-exchange method of water softening, minerals are extracted in purifying columns. But the columns must be flushed out, and the cleaning water that gets discharged is laden with salt, which pollutes groundwater. Alternatives such as pushing water through superfine membranes to filter out minerals tend to be more costly. Water can also be softened by sprinkling lime on reservoirs or ponds, but then a sludge settles to the bottom and must be cleaned out. The key to Ecosoft's process is a filter cake made from lime. When hard water is treated with an alkaline solution and passed through the lime cake, the dissolved minerals form crystals in the cake, which can be removed easily, Ecosoft says.

BRINE SHRIMP MAY SAVE LAB ANIMALS—AND HUMANS



Brine shrimp, once mere fish food, have a higher calling at Research Triangle Institute in Research Triangle Park, N.C. They're helping identify chemicals that could hurt mammals, including people. Randolph Sleet, head of the institute's comparative and environmental toxicology lab, says brine shrimp could be used to reduce the number of animals required to screen potential toxins. And the price is right: $4 for a 6-inch tube filled with 1 million embryos.

Freshly hatched brine shrimp larvae are grown in the blood serum of animals that have been exposed to a toxin. Over the next 48 hours, the larvae are observed for swelling, missing body segments, and death. If the toxin affects the way shrimp genes build proteins, it probably will also affect the way that genes in higher organisms build them. Sleet has used the technique to explore the toxicity of heavy metals such as cadmium and mercury, and is now exploring 2-methoxyethanol, a solvent used in making semiconductor chips.

'PUT THE HEAD IN THE BED AND KEEP IT THERE'

Insiders fuel charges of fraud and conspiracy at National Medical Enterprises

If you want to know why National Medical Enterprises Inc. is Public Enemy No. 1 in Washington's crackdown on health-care fraud, ask Banning R. Lyon. Six years ago, when he was 15, Lyon was despondent over his parents' divorce and his move with his mother to Dallas from Sonoma, Calif. A school counselor suggested a two-week evaluation at NME's Brookhaven Psychiatric Pavilion. What happened after that, Lyon recalls, was "enough to drive any sane person crazy."

After only a few days inside Brookhaven, Lyon wanted out. He had seen other patients in restraints and pleaded with his mother to get him released. But hospital staffers warned her that Lyon was suicidal. So he stayed. And stayed. And stayed. For 345 days, until his insurance coverage expired, Lyon was a Brookhaven resident. And for 7 of those 11 months, Lyon says he was subjected to "chair therapy"—a treatment that required him to sit in a chair facing a wall for up to 12 hours a day, without talking, reading, or doing homework. Lyon's therapy racked up $41,400 in doctor bills, on top of $127,300 in hospital fees—some of which he alleges were for care he never received. "It was like dying and going to hell," says Lyon, now 22, who sued Brookhaven in March for fraud, inflicting emotional distress, and depriving him of his liberty.

Brookhaven doctors, through their lawyer, deny any wrongdoing. "All treatment by the doctors was medically necessary," says attorney Gary L. Richardson. He adds that the "billing for treatment and services rendered was proper." NME's senior vice-president and associate general counsel, Christi Sulzbach, says the company cannot comment on Lyon's specific charges because of patient confidentiality rules.

WIDESPREAD WEB. Lyon's case is just one piece of a full-scale government investigation into NME. On Aug. 26, FBI and other agents raided 11 of NME's psychiatric facilities, and grand juries in numerous cities are probing allegations of false medical claims, conspiracy, kickbacks, and fraud against Medicare, Medicaid, and the Pentagon's insurance plan. Prosecutors are trying to piece together what they believe was a complex scheme starting as early as 1988 and lasting until 1992 involving top corporate executives, hospital administrators, and doctors at NME hospitals nationwide, according to sources close to the probe. One prosecutor predicts simultaneous indictments of the hospital chain around the country within six months.

Prosecutors and patients aren't alone in their pursuit of NME. Insurers are after the company, too. On Sept. 29, NME settled suits brought by Aetna Life Insurance, Metropolitan Life Insurance, and CIGNA for up to $125 million, without admitting or denying claims that it repeatedly defrauded the insurers. NME says it would be open to launching settlement talks with Travelers Insurance Co. and 12 other insurers that have sued NME. But no formal meetings have been set.

The scandals in NME's psychiatric business have battered the once high-flying company. NME's overall operating profit fell to $413 million in fiscal 1993 from $578 million in 1991. Although NME's primary business is general hospitals, its psychiatric hospitals are largely to blame for the downturn. Operating profit for the psychiatric division plummeted to just $3 million in 1993 from $234 million in 1991.

NME's management has undergone a drastic overhaul in an attempt to put the company's legal woes to rest. Gone are NME's founders, including former Chairman and CEO Richard K. Eamer, and other high-ranking executives. Neither Eamer nor his attorney could be reached for comment. The CEO, Jeffrey C. Barbakow, seems committed to addressing NME's prob Since his arrival in June, he has o six board members, including Ear

TOUGH TALK. At NME's annual meet Santa Monica, Calif., on Sept. 29, bakow pledged to cooperate fully investigators. "The message we sending is clear," Barbakow told dreds of angry shareholders. "The management of this company will on the highest standard of conduc ethical behavior from anyone asso with NME."

He also announced that NME ha Richard Kusserow, former Insp General for the Health & Human S

t., in charge of revamping the
ıy's compliance program. One of
ow's first acts was to set up a
in late September for employ-
call if they observe questionable
t by their co-workers—a move
rrors those implemented by em-
defense contractors in the 1980s.
tline will be linked directly to
op management. Later this year,
ans to launch a toll-free number
ients. "This will be the cleanest
l company that ever existed in
S.," Kusserow said in an inter-
Ie earned kudos as a tough cop
t HHS from 1981 to 1992, taking a
lar interest in health-care fraud.
oefore the new management team
ke NME into the future, it will
to deal with the company's
ourt records, interviews with for-
r NME employees, and internal
corporate documents obtained by BUSINESS WEEK expose the breadth of NME's alleged ruse. They also shed light on the previously unknown, yet pivotal, role doctors played in it.

In exchange for NME's generous compensation packages and a steady flow of patients from the hospital to their private practices, psychiatrists allegedly kept well-insured patients in the hospital longer than medically necessary and billed for treatment never given. "The corporate culture . . . stepped in between the physician and the patient . . . and made decisions based on economic issues rather than on patient-care issues," said Dr. Robert Galak, former medical director at NME's Canyon Springs Hospital in Cathedral Springs, Calif., in a Jan. 14 deposition in the Travelers case. Galak says he was fired in 1989 after a year at Canyon Springs because he would not toe the line. NME's Sulzbach says that though the company settled his wrongful-termination suit over a year ago, Galak never cited specific examples of patients being admitted to its facilities unnecessarily.

"THIS WILL BE THE CLEANEST HOSPITAL COMPANY THAT EVER EXISTED IN THE U.S."


E:
ITAL NO.: BANNING LYON
TTED: 602764
)R STAFF: 01-30-87
Brookhaven Psychiatric Pavilion
Dallas, TX
Kathleen Sheehan, M.D.
History & Physical Examination Record
CHIEF COMPLAINT: "I'm here on a mistake, I guess, I mentioned to a friend what would you do if I were dead?, she told her counselor and they told my counselor and they all blew it out of proportion."
HISTORY OF PRESENT ILLNESS: This is a 15 year old 9th grade student at Forest Meadow Junior High, who presents for his first psychiatric admission, complaining of depression. He reports feeling confused and depressed for the last 3 to 4 months. He reports family problems, being out of

LYON'S CHECK-IN PAPERS INCLUDED HIS PLEA THAT HIS ADMISSION WAS "A MISTAKE." THE PLANNED TWO-WEEK EVALUATION STRETCHED TO 11 MONTHS. SAYS LYON: "IT WAS LIKE DYING AND GOING TO HELL"

To some experts, the allegations against NME and its doctors highlight what occurs all too often in health care: a clash between medical and business objectives in which business wins. Karen Morrissette, the Justice Dept.'s deputy chief of fraud, says medical rip-off artists who charge for unnecessary or nonexistent care account for as much as 15% of the nation's $900 billion health-care tab. That's one reason President Clinton vowed on Sept. 22 that a key part of his health-care package is a "crackdown on fraud and abuse in the system."

Health-care shams have flourished throughout the mental-health industry for years. But they have gone largely unnoticed—mostly because psychiatric claims make up such a small percentage of overall insurance claims that carriers haven't paid much attention to them. In addition, doctors are reluctant witnesses, opting to turn a blind eye to colleagues' questionable conduct rather than tip off authorities, prosecutors say.

The Justice Dept. has about a half-dozen probes similar to NME's under way nationwide, says Philadelphia Assistant U. S. Attorney James G. Sheehan, a medical-fraud expert. They're part of a new assault on health-care scams targeting back-scratching by doctors and hospitals. "Doctors and hospitals have to work together to cheat Medicare and patients," says Sheehan.

The alleged cheating at some NME facilities involved maintaining a high hospital "census," or patient head count, according to internal corporate memorandums and marketing materials. A humorous ditty about NME penned by a company it hired to create motivational videos illuminates this strategy. Sung to the country-western tune *Looking for Love in All the Wrong Places*, it goes:

"No more looking for patients in all the wrong places,

Slumming for admissions in non-insured spaces,

Spanning the globe, covering my bases, for a six-month length of stay."

To achieve their revenue goals, some NME hospital administrators tried to allow only cooperative physicians to decide whether patients should be admitted, court records show. When it came to discharges, "the insurance expiration date decided most of them," states Russel D. Durrett, a former controller at NME's Twin Lakes Hospital in Denton, Tex., in a July 23 deposition taken in the Aetna and Travelers cases. Durrett says he was dismissed because of Twin Lakes' financial difficulties and personality clashes. Sulzbach, the associate general counsel, says Durrett was terminated because he was incompetent.

Sulzbach declined to address specific allegations. But generally, she argues that Durrett's accusations, as well as those brought by other former employees, stem from practices and procedures the company has discontinued. In addition, Sulzbach contends that the doctors

and corporate officials under scrutiny are no longer with the company. "This is a different NME than [the one] that may have engaged in these alleged practices," says Sulzbach. She adds that several of the charges against the company have been brought by employees who were not in a "position to have personal knowledge about the allegations."

NEVER ON FRIDAY. But inquiries thus far have turned up evidence that doctors who insisted on letting patients go before their insurance ran out were called in for a meeting with top management. The agreement usually was to keep the patient, Durrett's deposition states. The idea was to "put the head in the bed and keep it there," according to Ralph A. Roath, a former patient "intake director" at Twin Lakes, in an Aug. 23 deposition. Roath says he was fired because of a personality conflict with a boss. NME declines to comment on Roath's termination.

Investigators say few opportunities to boost revenues were overlooked. At some NME hospitals, Friday discharges were eliminated to keep the head count high over the weekend, according to Durrett's deposition. Internal company records show that special entertainment programs, such as movies, parties, and sports were offered during weekends and holidays to keep patients from leaving, thus depriving NME of revenue. Patients were given 23-hour Saturday and Sunday passes—as long as they returned at midnight, when the census was taken. Patients who wanted to leave before their insurance ran out were persuaded by hospital staffers to stay longer, according to court records and interviews with ex-NME employees.

Also, hospitals encouraged their medical personnel to chart only diagnoses covered by insurers, according to an Aug. 31 deposition by Twin Lakes computer manager Deborah K. Parkey, in a lawsuit filed by a patient. For example, art therapy or biofeedback, treatments not usually covered by insurance policies, were billed as group therapy. Dual diagnoses, such as chemical dependency or depression, were encouraged by management because they had a better chance of capturing benefits, Parkey's deposition states.

Doctors who balked at unnecessary hospitalization didn't last long. Psychiatrist Harold M. Chandler told managers at Bedford Meadows Hospital in Fort Worth "to get the patients well and follow up with outpatient treatment." As a result, he claims, he was fired in 1991 after three years with NME. Chandler is now suing NME for damaging his reputation, practice, and livelihood. NME declined to comment on Chandler's suit.

Members of the medical staffs at other NME facilities also raised questions about practices they saw that contributed to the bottom line at patients' expense. Jose Carranza, a psychiatrist at Laurelwood Hospital in The Woodlands, Tex., from 1982 until the hospital closed in 1992, had deep reservations. In a Sept. 5, 1991, letter to Norman Zober, then-president and CEO of NME's speciality-hospital group, Carranza wrote:

FORMER NME EXEC DURRETT SAYS PATIENT STAYS ENDED WHEN THEIR INSURANCE DID

"The way this hospital operates is not only against the principles of most basic medical education, but I believe many current procedures are unethical and possibly illegal." He cited an edict that nurses ignore doctors' orders for discharging patients.

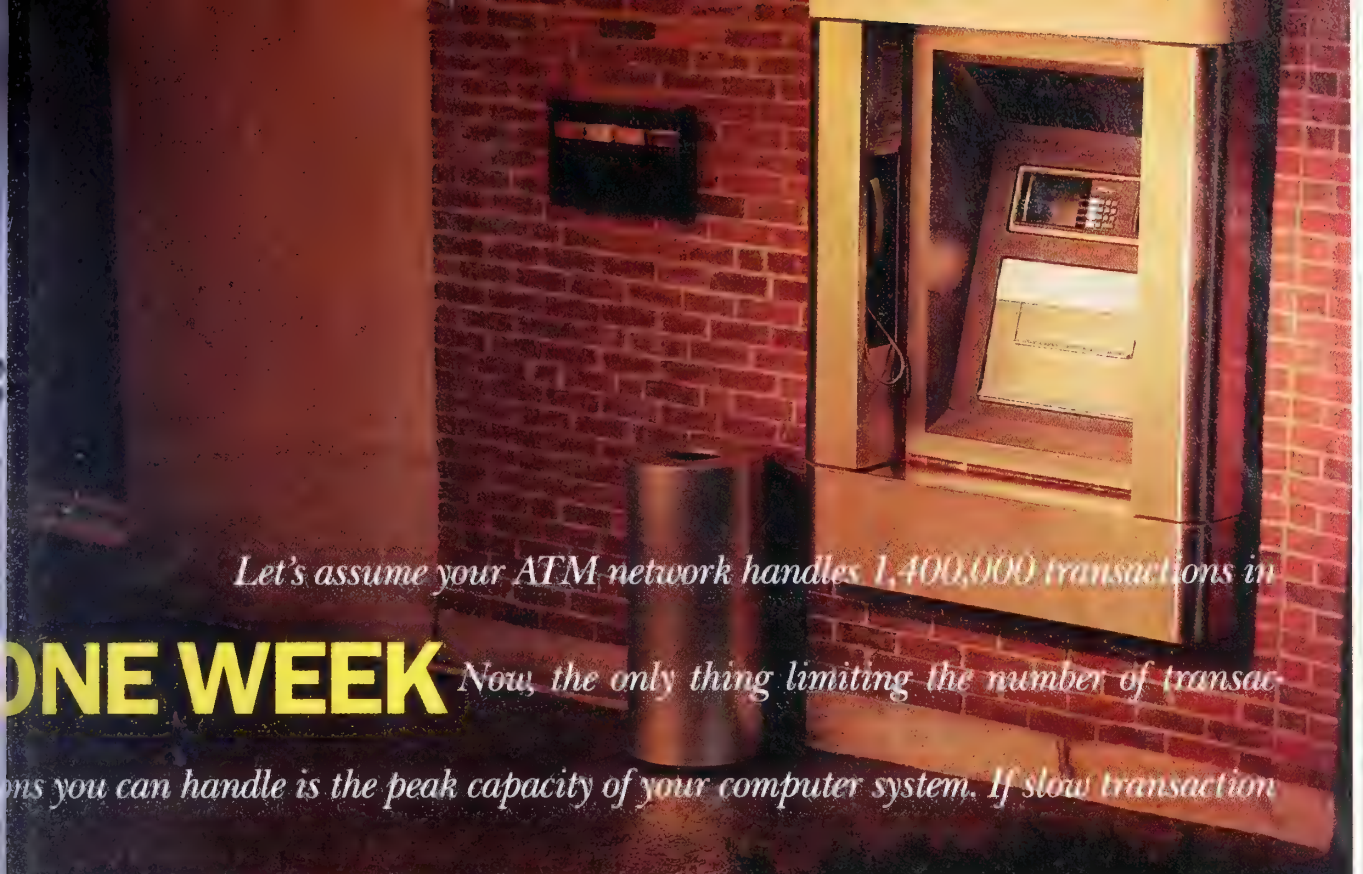
Doctors who stuck with NME prospered. Twin Lakes, for instance, valued doctors who brought in patients from their private practices, according to Parkey's deposition. She says the hospital kept a running tab of the number of patients doctors referred to Twin Lakes. Those physicians who didn't contri their fair share or keep patients in enough were taken off the hospital tion—a costly punishment, since Lakes rewarded its best doctors by ing them two patient referrals for e patient they brought in, accordi several ex-staffers as well as "intak rector" Roath's deposition. NME de comment because of pending litiga

Consider Dr. Nishendu Vasa Twin Lakes' medical director from to 1991. A good, hardworking ps atrist by most acc he had a thriving tice, treating more 25 hospital patien a time, accordin Durrett's depositio was well compens $15,000 a month about a 10-hour 50% of salary as a end bonus, and $20,000 a month t er rent, staff, and services for his pr practice, Durrett testified.

"WAVE THERAPY." But Vasavada h tle time to see his patients, says dler, who served as Twin Lakes' c director in 1988. Instead, Vasavada therapists to check on them dail notify him of any problems. Vas often met only briefly with his pat yet he charged them his $125 fee daily visit. Hospital employees these brief encounters "wave thera a practice in which busy doctors m wave hello and goodbye to patien cording to Roath's deposition. A ernment investigator says wave th is common at psychiatric facilities. vada, who has not been accus wrongdoing, declines to discuss his pensation. But he says he never co mised medical care. Vasavada a that psychiatrists routinely work teams of therapists and nurses to patients and therefore do not spe much personal time with patien took good care of my patients," Vasavada, who still privately many of his former Twin Lakes pa

The well-being of patients clear federal prosecutors worried. On possibly billions of dollars lost an to health-care fraud, they are con about the human toll of these pra "This kind of fraud is not a victim purely financial crime," notes Ju Morrissette. Banning Lyon can att that. "I'm a different person from I went in," says Lyon, who now a a community college. "It's diffic me to trust people." Especially do

By Catherine Yang in Washingt Eric Schine in Santa Monica, Cal



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ons you can handle is the peak capacity of your computer system. If slow transaction

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HEWLETT-PACKARD DIGS DEEP FOR A DIGITAL FUTURE

CEO Platt's aim is to create blockbuster products by crossbreeding technologies

W

THE COMPONENTS

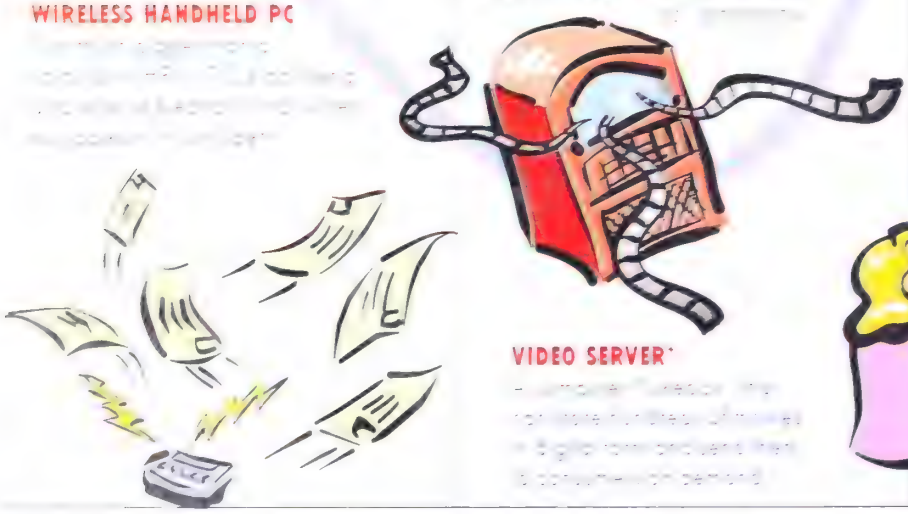
A [illegible] of technologies that'll give the computer giant edge in new markets

WIRELESS HANDHELD PC

VIDEO SERVER

INTERACTIVE TV DEVICE

DIGITAL CABLE TV DECODER



n most Fords and stores
al signs for analysis at
age. HP beat IBM to a $63
Ford contract, just be-
Big Blue lacked in-house
ement expertise. "HP's in-
ntation was the key fac-
us," says Ford manager
d S. Tedesco.
ıe new world of interac-
igital media and data
ghways, HP's technology
l come in handy in lots of
Birnbaum told Platt. Ca-
operators will require
igh-speed computers and
ıentation to blast digitized
ignals into homes and to
ɜe glitches along the way.
ly, the combination of HP's
ters and medical instru-
could make remote clinical
ses practical. It would be possible
ıitor a patient at home, send the
er a network to a remote comput-
analysis, and relay the findings—
with digitized X-rays and other
s—to a doctor anywhere.
ılly, Birnbaum said, there would
ıge consumer market in handheld
s to send and receive information
ıew wireless networks. Some of
oducts for the digital revolution,

ONE ADVANTAGE FOR PLATT: HP IS ALREADY RUNNING LEAN

such as HP's palmtop PCs, were ready for market, some were on the drawing board, and still others were just a gleam in some engineer's eye (table).

Platt's response: *¡Viva la revolucion!* Now, by marshaling HP's myriad technologies—some hidden in obscure corners of the company—and crossbreeding them into entirely new products, this unassuming 52-year-old engineer is pushing HP into its third technological era. Cofounders William Hewlett and David Packard built HP around test and measurement equipment—oscilloscopes and the like. Young, who became CEO in 1978, pushed HP deep into computing and communications. Now, Platt is mixing a range of technologies to put HP out front in the coming digital era. Predicts Birnbaum: "HP's going to be an almost totally different company 10 years from now."

CRITICAL MASS. That's a big ambition. And one that even Birnbaum isn't completely sure can be accomplished. "It's much, much too early to say whether this is really going to work or whether HP can organize itself to do this," he says. In typical HP fashion, Birnbaum has coined a techie slogan—HP=MC² (for measurement, computing, communications). In February, Platt created an MC² Council, composed of top technical and marketing people from all over the company, to pick several dozen potentially big markets, from which Platt will choose three or four for full-scale attack. Already, about a third of HP Labs' $137 million budget is going into fundamentally new products.

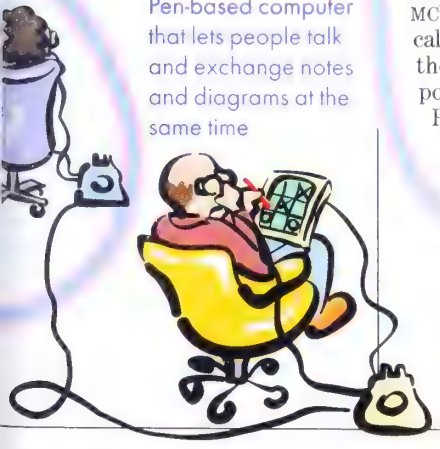
The effort is being closely watched, both within HP and without. Warns one HP manager: "There will have to be really hot successes in the next year or two, or it could fade like the code names of a project." And, notes Salomon Brothers Inc. analyst John B. Jones Jr.: "There's been no real meat yet."

Which isn't to say there won't be. In October, for example, HP expects to announce a potentially major deal with Time Warner. The cable giant will give HP color printers to viewers trying an experimental interactive cable network in Orlando. Hooking the $300 devices to their TVs, viewers will be able to print out shopping coupons and magazine articles. In 1995, HP plans to sell a printer that can also capture stills from any video, whether it's of Madonna or baby's first steps.

Platt, unlike many computer CEOs, at least gets to attack the digital future from a position of strength (table). HP's $2.3 billion minicomputer business is growing 20% annually, twice the indus-

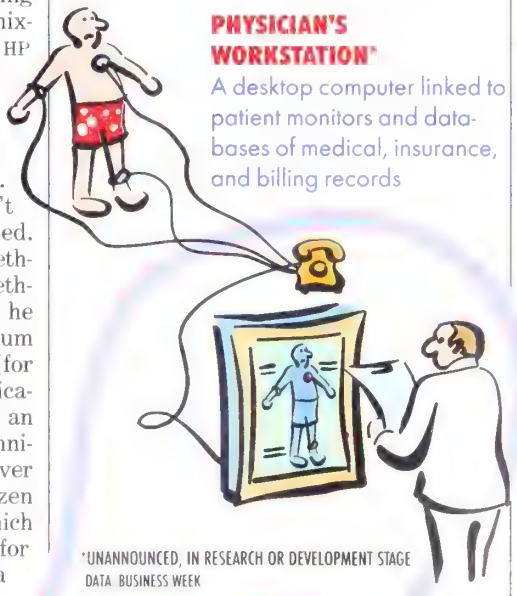
O PRINTER*
lified versions of HP's color
puter printers that could print out
olor frames from the TV screen

INTERACTIVE NOTEPAD*
Pen-based computer that lets people talk and exchange notes and diagrams at the same time



HEALTH MONITORS*
Sensors and devices that measure vital signs in a hospital—or at home—and relay data directly to a doctor's computer

PHYSICIAN'S WORKSTATION*
A desktop computer linked to patient monitors and databases of medical, insurance, and billing records



*UNANNOUNCED, IN RESEARCH OR DEVELOPMENT STAGE
DATA: BUSINESS WEEK

AUTO ANALYZER
A system for Ford dealers that combines an HP PC, measurement instruments, and a portable "flight recorder" to analyze car problems

TION PROCESSING

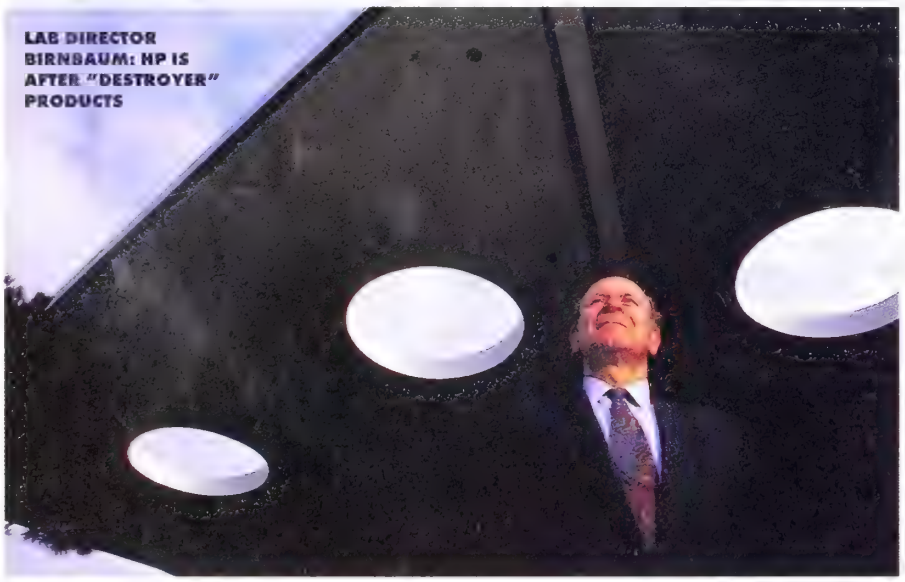
try average. Workstation sales are expected to advance by 19%, and PC shipments are likely to double this year, according to market researcher BIS Strategic Decisions. Even its test and measurement business, although maturing, is far outpacing those of rivals.

Another plus for Platt: HP has already survived the wrenching adjustments that IBM, DEC, and Apple are still going through to become more competitive. In the late 1980s, HP recovered from a late start in workstations and, in the early 1990s, successfully attacked the creeping bureaucratization that was slowing it down. And it has been on a determined companywide effort to squeeze out costs. For instance, it no longer stockpiles countless versions of printers and PCs in warehouses. Instead, it stocks components and software at distribution centers and combines them at the last minute to match each customer's order. By such changes, HP has driven operating expenses from 41% of sales in 1988 to 30% today. Says SoundView Financial Group Inc. analyst Russell D. Crabs: "HP is a much more natural candidate for consumer electronics than Apple."

No matter how well it manages, however, HP today is in businesses where growth is slowing and margins declining. So, while Platt prospects for new markets, he can't afford to miss a beat in minis, PCs, printers, workstations, or measurement gear. Indeed, HP has been outpacing its markets by grabbing share from rivals—who now want it back.

In workstations, for example, Sun Microsystems has refreshed its entire product line to take on the HP models that one-upped it in 1992. And Silicon Graphics Inc. has been selling workstations to special-effects studios for years, giving it a big head start in the new digital-video market. Meanwhile, DEC has its Alpha microprocessor, which is more powerful than anything HP makes and could help the beleaguered minimaker in both workstations and larger computers.

STREET JITTERS. Already, Wall Street is looking for holes in the Hewlett-Packard story. After bidding HP shares up to a record 89¼ in June, investors began dumping the stock. Although HP had reported a 44% jump in profits and a 23% sales increase, to $5 billion for the July quarter, analysts who had been expecting more, perceived a slowdown in momentum and hit the sell button. On Aug. 17, the stock slid $6.75 for a few hours before settling at 74. And while revenues are expected to grow 21%, to $19.9 billion, for the year ending Oct. 31., analysts predict revenue growth will slow to 12% to 15% in 1994, partly because of dropping computer hardware prices.



LAB DIRECTOR BIRNBAUM: HP IS AFTER "DESTROYER" PRODUCTS

So developing new markets is "absolutely critical" to HP's long-term survival, says Goldman, Sachs & Co. analyst Barry Willman. And Platt thinks he sees a couple of really big ones that play to HP's technology triad: The first is the information superhighway, that awesome, nationwide digital network that Vice-President Al Gore and myriad media and electronics executives have been getting so excited about. To the companies feeding that network with digitized TV programming, HP intends to supply "video servers"—specialized, high-powered computers that could store thousands of movies and other programming and zap any one of them to an individual's home on request. HP also wants to supply advanced networking gear and special test instruments to make sure that digitized reruns of *Gilligan's Island*, say, show up with at least the fidelity of a videotape. The po market for video servers: $20 bil 2000, says HP Vice-President Frankenberg.

The other market is in the h self. HP wants to put its logo number of new consumer gadgets ing with handheld remotes and troller boxes for "interactive" v Last year, HP signed a deal to $700 TV set-top controllers to swer Inc. in Reston, Va., since re Eon Corp. The devices will help potatoes play games and shop wit TV sets. Another possible prod "interactive notepad," cooked up Labs, that connects between a st phone and its wall socket and le people miles apart edit a documen conversing over a single phone li

"We're looking for new multi dollar businesses," says Platt. "W things that will turn markets down." Or, as Birnbaum puts it, H ter "destroyer" products, the kin "will put an old industry instantly business"—as HP's calculators blew slide rules in the early 1970s.

Those who have watched HP a $4.3 billion computer printer b from virtually nothing a decad don't doubt its ability to focus pr on an opportunity and then pound that success—HP's biggest coup 1980s—came out of a highly entrep rial, free-standing division. Platt program will live or die on tha elusive of big-corporation goals: sy "Not one of these new projects carried out by a single Hewlett ard organization," he concedes.

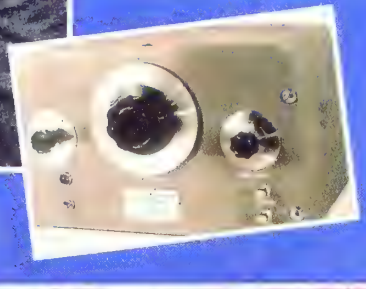
COFFEE TALK. That's where the new long experience and low-key pers will play an important role. A 27-y veteran, Platt doesn't seem terri removed from the average Silicon engineer. He drives a Ford Taurus in a modest home in a Valley s mows his own lawn, and, for rela likes fishing off his 17-foot boa wildest thing anybody remember doing was, on a visit to Japan, tantly taking the *karaoke* mike out *I Left My Heart in San Fra* And that's just fine around the spr Palo Alto, Calif., headquarters. not a cult of personalities," says M Tolliver, who worked under Platt now at MasPar Computer Corp.

What Platt has is an intimate edge of HP—and its hidden asse joined HP's medical products divi 1966 and later managed the analyt struments unit. In 1986, he mo computers, where he decentralize sion-making and cut costs. Says H HP manager Daniel J. Warmen now CEO at Network Equipment

THE THREE PHASES OF HP

1939

From a Palo Alto garage, David Packard and William Hewlett launch the company. Early electronic instruments include an audio oscillator, used by Disney Studios in making *Fantasia*



1978

n Young becomes CEO
builds up HP's computer
ness. In 1981, he begins
pioneering move into
dy reduced instruction-
computing (RISC)

1993

A third wave begins with CEO Lewis Platt. His goal is to launch HP into the converging worlds of computers, communications, and consumer electronics using HP's unique technology blend

ies: "Lew's strengths are attuned to
s ahead." HP managers applaud his
-to-earth approach. "He's really a
ght shooter. He'll sometimes say,
I hope you understand that, I
' It puts the responsibility back on
says Rick Belluzzo, general manag-
HP's printer operation.
t it may take more than a Mr. Nice
approach to get everybody behind a
ebulous vision. Since becoming CEO,
has held more than 100 "coffee
' with employees around the world
omote his strategy. Still, in parts of
ompany, says Byron J. Anderson,
al manager of the communications test business, the reaction to Platt's MC² drive is "kind of in the 'Say huh?' phase." Dozens more meetings are planned, and Platt has tied division managers' raises partially to how well they collaborate.

Another change is a new emphasis on partnerships to get into new markets fast. Last year, for example, an HP team tapped American Telephone & Telegraph Co. and Japan's Citizen Watch Co. to help rush out a new disk drive just 1.3 inches in diameter. Previously, HP had made disk drives on its own. Now, it's working with IBM on speeding up office networks to handle video. At the same time, HP is making small acquisitions to fill out its technology cupboard, such as its September purchase of BT&D Technologies Ltd., a British maker of communications chips. Says Platt: "We know we can't do it all ourselves."

In terms of style, the biggest challenge may be diving into the maelstrom of digital deal-making. HP is not an outfit that quickens the pulse of the digital cognoscenti the way the mere mention of certain "multimedia" startups does. At HP, you can still find many 45-year-old engineers in thick glasses and short-sleeved white shirts who would rather take their kids to the company picnic than sip espresso with a Hollywood honcho. "The most critical issue is relationships," says Jones of Salomon. "I haven't seen enough announcements to see that they're assured of success. They're clearly not a shoo-in."

"CREWCUTS TO PONYTAILS." On the other hand, this won't be HP's first trip to Hollywood. Its first product—an audio oscillator, for generating precisely pitched tones—went to Disney Studios to help make *Fantasia* in 1939. Moreover, for years HP has been selling instrumentation to the same microwave, radio, and cable-TV company engineers who are now setting off the global explosion in wireless and cable-based communications services.

In a move that has strong symbolic overtones, HP last year gutted its oldest division, a moribund maker of microwave components, and in a matter of months transformed it into the Video Communications Div. "We've moved from crewcuts to ponytails," says engineer Al Kovalick, who says he's having fun learning the Hollywood market. In just nine months, the reborn unit invented test gear for TV studios and since then developed a large-scale video server that will be introduced in the next few months. Says division general manager James Olson: "None of this could have happened outside the current environment of HP."

Already, Platt's blending of instrumentation, computers, and networks has been a tonic for some of HP's old businesses. Phone companies have become big minicomputer customers, for instance, partly because of the link between HP's computers and test instruments, which can flag network problems.

The critical factor, however, will be entirely new products. Which is just fine with many HP engineers: They spy a chance to return to their first love, inventing fundamentally new gadgets, not just boring upgrades. "It has put a spring in the step of everybody here," says Gary Baldwin, director of HP's Solid-State Technology lab. And, eventually, it might put money in HP's coffers, as well.

By Robert D. Hof in Palo Alto, Calif.

FROM HUGHES TO HELL—AND BACK

House, wife, pride: A laid-off defense engineer almost loses it all

Jack Tancredi is an engineer, so he's used to dealing in facts. And the facts he had the day he lost his job just didn't add up.

First of all, his team at Hughes Aircraft Co. was in the middle of a lucrative contract with the Dutch navy to design targeting devices for Gattling guns. Second, and more important, Jack was a key member of the team. Only two months earlier, the marketing department had sent him on a big trip to Amsterdam for the project, and his presentation had been well received. At 54, Jack felt good about his career. In fact, he had never really felt better during his 32 years in the defense industry—13 of them at Hughes.

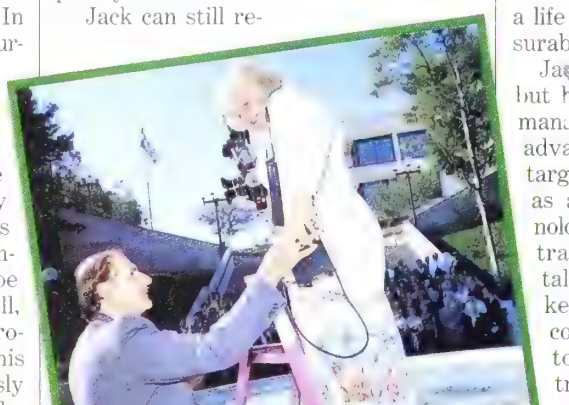
He had worked for big organizations most of his life, so when his boss called him into his spacious office that afternoon, Jack had that vaguely queasy sensation that something was about to change. He knew it was dangerous to assume the change might be positive, but as he walked up the hall, he couldn't resist wondering if a promotion was in the offing. Instead, his boss sat him down and unceremoniously asked for his security badge. "Jack," he said, "we're making some changes, and there's no place for you in our future."

SPIRALING DOWN. It's almost two years later now, and Jack Tancredi still feels deeply betrayed. Most of the time, his emotions are filed carefully away, but when pressed he'll recount how he threw down the badge, hurled an obscenity at his boss, and stormed out of the building feeling angry and defiant. The anger is still there, but the defiance has been replaced by an empty well of frustration. "It never dawned on me I would be out of work," he says.

The same is probably true for the 121,000 other defense and aerospace workers who have lost their jobs in Los Angeles County since 1988. They are being swept downward by a region caught in a stubborn decline. Nearly 1 million workers have been idled nationwide as a result of the steady post-Reagan-era defense cutbacks. In batches of 2,000 or 5,000, sometimes more, sometimes less, they have bled out of companies like Hughes, Lockheed, Northrop, and McDonnell Douglas. The headlines have chronicled the trend, but rarely the bewildering experience of living as a labor statistic.

For Jack, the good news is that he has finally found a job. The bad news is that it's with a thinly capitalized engineering startup at 34% less pay. He's not complaining. He's just glad to be back to work. But the experience has plainly worn him out.

Jack can still remember the feeling he had when he first stepped off the plane from New Jersey in 1979. March had been gray and chilly back home, but Los Angeles was as advertised: warm and bright. As the first dry California breeze swept across his face, he knew he had made the right choice. "At that moment, I became a native," he recalls. "This was the place where I wanted to be."



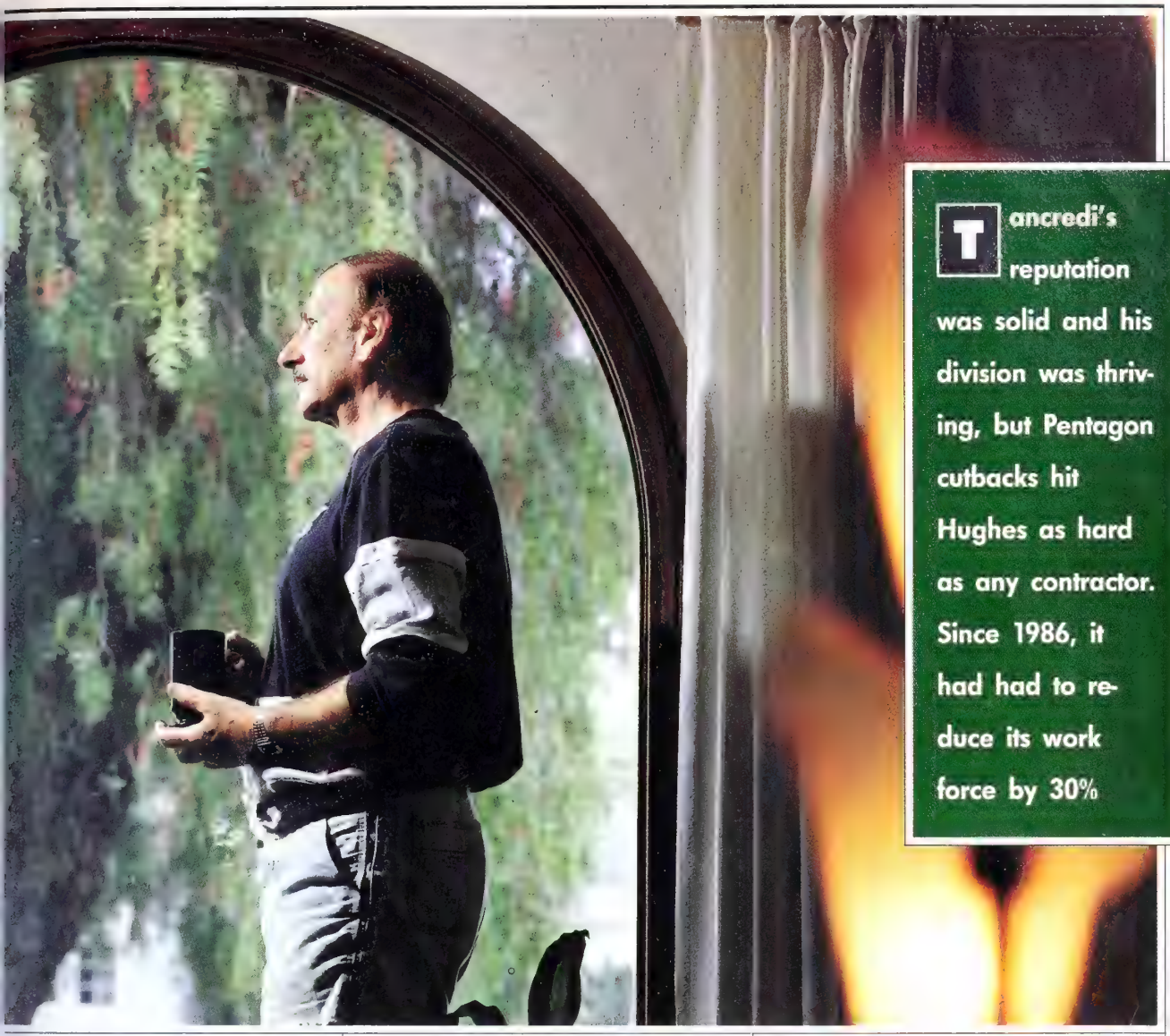
A WINDOW SHOOT: JACK TOOK OVER THE WORK OF LINETTE'S TWO PHOTO ASSISTANTS

Of course, thousands of other engineers and scientists had flocked to places such as Torrance, Long Beach, and El Segundo during the cold war. But for Jack, California and Hughes were especially sweet. After growing u working-class Italian neighborh New York City, he had won an a ment to West Point—only to be out for discipline lapses. He finis training at the City University York and worked for 18 years electronics engineer in a nondescr fense Dept. job in New Jersey. H by comparison, was nirvana. It elite aerospace company, long kn its job security, top pay, and lavi efits. As he set up a home with h and three kids, Jack felt he had e a life of drudgery for something surably better.

Jack wasn't exactly a star at H but he prospered there. As a pr manager, he headed teams deve advanced microwave tubes for targeting devices. He was reco as an expert in electron beam nology. His easy manner and ab translate complex issues int talk made him a favorite in th keting department. He travel country presenting technical to engineering groups. Mar trips to Europe and Asia we uncommon. By 1991, Jack wa ing in $83,000 a year whil manding a staff of 20 people

There were plenty of pe triumphs as well. Surging r tate prices made Jack look when he sold his first Cal house for a gain of $75,00 two years after buying it. He ered a painful divorce from hi wife, but went on to marry Linett kelle, a studio photographer wh met in Monterey. They bought a in Torrance, minutes from Jack Linette set up a studio nearby.

When Jack lost his job, Linett as astounded as he was. "I thou was making a bad joke," she sa just knew there was no way he co replaced." But in hindsight, both they should have seen it coming headlines had been relentless. Per cutbacks had produced wave after of layoffs as programs such as t



Tancredi's reputation was solid and his division was thriving, but Pentagon cutbacks hit Hughes as hard as any contractor. Since 1986, it had had to reduce its work force by 30%

er and A-12 attack jet were sacri-
Jack's division was thriving, but
es itself was hit as hard as any
actor. Since 1986, it had reduced
ork force by 30%.
iette's business, too, had faltered
e local economy headed south. Af-
ears of frothy growth, Los Angeles
ty abruptly developed a 9% unem-
nent rate. In October, 1991, the
h before Jack was let go, five cou-
Linette was to have photographed
led or postponed their weddings.
of a sudden my nice yuppie engi-
no longer had jobs," she says.

BY STEP. Despite the harrowing lay-
umbers, Jack wasn't overly wor-
about his predicament when he was
aid off. His division gave him three
hs' notice—more than enough, he
ght, to find a new position within
es. He continued to work, although
oss said he didn't have to. And he
the rounds within the company in
n hope he would be rehired.

at proved a costly mistake. Pete
tas, a former Hughes marketing manager, notes Jack never really had a chance of being rehired, despite a solid reputation. "He wasn't part of the inner circle [in other units]," Koustas explains. "Most managers had been there since college. They protected their own."

Hughes won't comment about the circumstances surrounding Jack's layoff. But the company is taking action on behalf of its laid-off workers. In September, Hughes received a $10 million federal grant to fund an experimental program to help find jobs for its idled employees. For Jack, though, the grant came too late.

It wasn't until April, five months after losing his job, that he finally began thinking seriously about looking outside for work. At the Defense Dept. back in New Jersey, Jack had worked with many engineers at big outside contractors. Those contacts, he assumed, would provide an "in" someplace else. But as he went down the list, he was astonished to find that virtually all of the people he knew in the industry had either recently retired or been let go. Suddenly, Jack began to feel the storm clouds gather. "It was a shaky time," he says. "There was no one I could call."

Despite the blowup at his boss, Jack is not an outwardly emotional man. He speaks slowly, his responses are measured. He approaches hurdles as many engineers do: They are definable problems with logical answers. As his plight became clear, he sketched out the blueprint of a solution. He would maintain a strict schedule in the mornings, writing letters and sending out resumés (300 in all). In the afternoons, he would help Linette with her photography business. Each step would lead to another. Finally, the answer would emerge.

The structure helped, but as Jack waded into the system of government- and industry-financed retraining programs, his anxiety grew. The local Private Industry Council required that he attend two weeks of tedious classes on resumé writing and interviewing techniques to gain access to a listing of jobs. The best the council could come up with was a position managing the line at a local stationery

plant. While Jack thought both the job and the $40,000 salary were beneath him, he didn't say no immediately. They did. Since he didn't speak Spanish, he wasn't even called in for an interview.

By July, 1992, the Tancredis were running out of money. Jack had stretched his 14 weeks' severance pay far enough to cover the bills through June. Once that dried up, there was only the income from Linette's studio work, and that wasn't even covering expenses. To save money, Jack canceled their health insurance policy, figuring the $480 premium would buy two months' groceries. That still left a $2,000 monthly mortgage payment. And with no job, refinancing was out of the question.

Late that month, Jack made the hardest telephone call of his life. Contrite and embarrassed, he rang up his 84-year-old mother in New York and borrowed $5,000. His brother, a New York postal worker, came through with $10,000 more. With no further relief in sight, Jack and Linette decided to take some drastic steps. Linette let go her two photo assistants—Jack would do their work—and Jack moved her equipment into their home.

The master bedroom became the studio. Jack and Linette moved their quarters into a cramped guest room. The living room became the lobby, dominated by a large doll in a wedding dress standing on a table behind the couch. On the walls hung samples of Linette's work: wedding shots, baby portraits, and several "boudoir" shots of young women in lacy lingerie. Amid it all sat a snapshot of Jack with his two grown daughters and son.

A few weeks later, Jack finally got some good news. He was invited to fly to Waxahachie, Tex., to interview for a post on the Superconducting Super Collider program. It was his first interview in two months, and only the third since he had lost his job eight months earlier. He had already written his resumé to mask his age. Now, on the eve of the big interview, he decided to go one step further: He dyed his graying sideburns and mustache jet-black. "I felt I absolutely had to present a youthful image," he recalls.

LOOMING DISASTER. The all-day interview sessions went so well that Jack assumed he had the job. But when two weeks went by without a word, he finally called, only to learn he had been passed over. "I was so dumbfounded I didn't even think to ask why," he recalls. He consoled himself with the news that General Dynamics Corp. in Fort Worth had laid off 5,000 workers since his interview, creating a surplus of local engineers for the job. But losing the chance left him feeling worthless and powerless, about as bad as he had ever felt. "It was the absolute low point for me," he says. "I felt that I was of no value to anybody."

As it turned out, the Texas interview was the last Jack was going to have for more than a year. And as summer turned to fall, his relationship with Linette began to deteriorate. Jack plunged into his wife's photography business, carrying cameras and adjusting lights. But by now, he was driving her crazy. She couldn't accept that Jack, once such a success, had been out of work for a year. And the constant togetherness was becoming unbearable. "Every single day you get up and face each other," she says. "Before, Jack had his career and he was good at what he did. And I did what I did. Now, all of a sudden, he's trying to do what I do. It was horrible. We yelled all the time."

The dreary monotony was broken in January, 1993, when Jack entered an intensive retraining program to learn environmental engineering. Classes lasted 10 hours a day, with tests in chemistry, waste management, and environmental law. Jack jumped in with both feet. "I tell you, Jack was always first with an answer," says former Hughes co-worker Kantesh Gupta, another ret

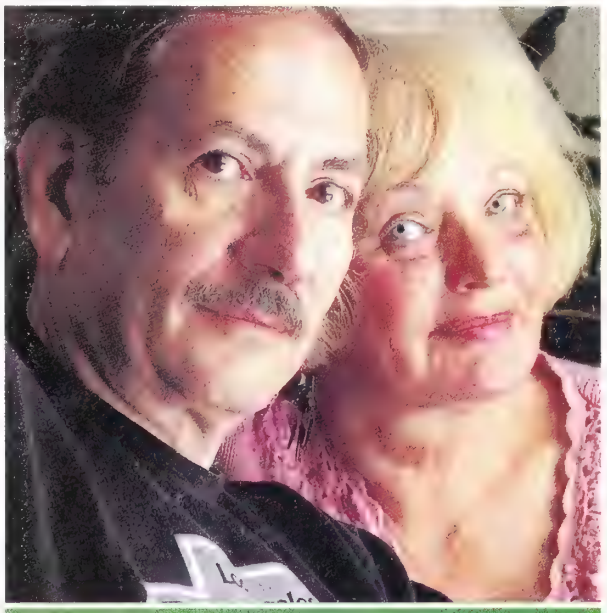
The program ended in April. August, Jack hadn't gotten a sing ble from any of the dozens of e mental companies where he had a The money was running out aga for the first time, the Tancredi ously feared losing their home. Th way they got to sleep at night wa the drone of the TV in the backg Linette found herself breaking int randomly during the day. Sitting i living-room-turned-waiting-room afternoon, she could hardly conta frustration with Jack a situation. "We are this c becoming homeless," sh holding her thumb and finger almost together.

HELP FOUND. Jack, never of a churchgoer, began t as the summer wore wonders if maybe that' finally paid off. One S morning late in Augu came across a two-line wanted ad in the *Los A Times*. A company called ican International Techn Inc. was looking for an in electron microwave tub nology. Jack faxed over sumé, went in for an int and was hired the next Just like that.

AIT is a tiny company f five years ago by a Hughes engineer. It d high-tech systems that cl uid waste and speed up t ing process of ink used bels and paper currenc company has six employe an annual budget of $350,000—mostly in grant Lawrence Livermore Lab ries. Jack makes $55,000, and his to help design the product. He also track of finances while the pre combs the country for investors.

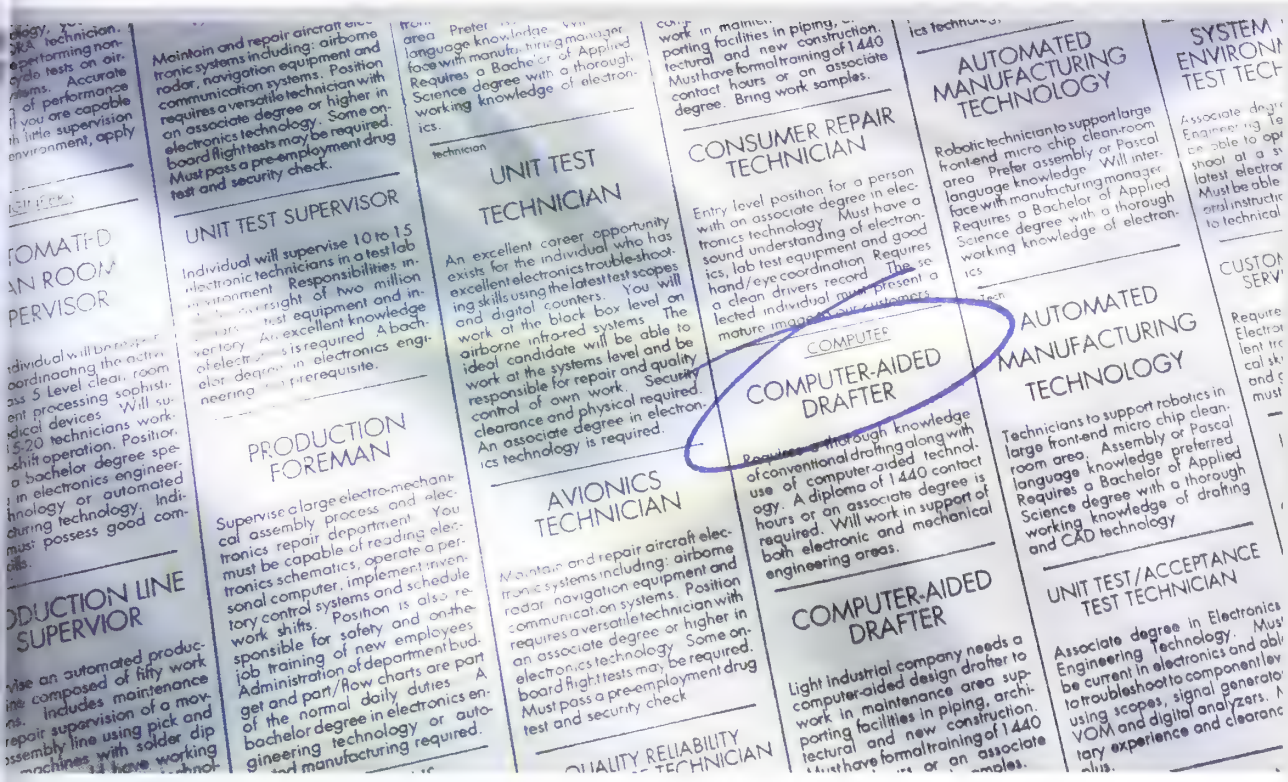
Linette says the new job has their marriage. "I was waiting for get a job so I could leave," sh bluntly. "But there's been a drast sonality change in him. He's mo the person I used to know, the pe married." AIT doesn't provide the rity of a Hughes, but Jack is ce willing to take his chances. The thing is that the new job gives hi a measure of his lost dignity. "Y important," he says, "is feeling r sible for something again and someone put faith in me again." Fo Tancredi and the thousands mo him, having a job at all is Cali dream enough these days.

By Eric Schine in Torrance,



Constant togetherness and anxiety about losing their home nearly undid the Tancredis' marriage

ITT Tech Students Pass Their Biggest Test After Graduation.



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GAMING

VIVA LAS VEGAS: THE MGM GRAND CASINO, OPENING THIS WINTER, WILL GIVE OTHER FLASHY NEWCOMERS SOME STIFF COMPETITION

WILL TOO MANY PLAYERS SPOIL THE GAME?

As gambling spreads, some operators may have to fold their hands

Steve Wynn wanted the Oct. 27 grand opening of his Treasure Island casino to be unlike any other in the gaudy history of Las Vegas. The chairman of Mirage Resorts Inc. planned to blow up the Dunes Hotel, a decrepit 38-year-old landmark he acquired in January, as part of an elaborately staged battle between a simulated British frigate and a pirate ship roaming the waters encircling Treasure Island. Alas, like so many Vegas dreams, Wynn's idea went up in smoke: On Sept. 26, the Dunes burned down all by itself after an electrical fire.

Few industries are as hot these days as the gaming and casino business. Hungry for the tax revenues from gambling, state and local governments are allowing new casinos in South Dakota mining towns, up and down the Mississippi River, and on Indian lands in Connecticut, California, and points in between. The casino industry took in $10.2 billion in 1992, and gambling experts think that will double by the year 2000. "Gambling will be the biggest form of entertainment in the country," says Fort Worth investor Richard E. Rainwater, who holds options to buy a 14% stake in slot machine operator United Gaming Inc. "Bigger than movies, sports, even eating out."

DANCES WITH DICE. As any all-night blackjack player will tell you, though, there's no such thing as a sure bet. With dozens of companies spending hundreds of millions to jump into gaming—not to mention veteran investors such as Marvin Davis and even celebrities such as Debbie Reynolds and Kevin Costner—someone is bound to get hurt. "There's going to be a shakeout and a consolidation, just like any other boom industry," predicts Charles Avonsino, president of Hilton Corp.,

BETTING THE RANCH

Developer	Project	Cost (Millions)
KIRK KERKORIAN	MGM GRAND	$1,030
MIRAGE RESORTS	TREASURE ISLAND	$450
CIRCUS CIRCUS ENTERPRISES	LUXOR	$390
PROMUS CORP. /CHRIS HEMMETER	NEW ORLEANS CASINO	$500 *
ITT SHERATON CORP.	DESERT INN	$160 **

*Estimate **Excludes cost of upgrading hotel and casino

DATA: COMPANY REPORTS, BW

a veteran oper casinos.

Nowhere a risks greater t Las Vegas. Ju weeks before Tr Island opens, Circus Ente Inc. will ope $390 million py shaped Luxor And in mid-Dec Kirk Kerkorian Grand Inc. wil a new 5,000-roo tel and casino. rian is pouring lion into the p which includes acre theme par goal is to lure lies, preferably parents who ar machine enthu "Our studies that only 15% of Americans hav been to Las Vegas," says MGM Chief Executive Robert R. Maxe have plenty of room to grow."

Perhaps. When new casinos th Las Vegas, however, it is usually expense of existing players. Th tery Mirage and the Excalibur been luring new tourists since opened in 1989. But in the same p five other stalwarts, including the and the Riviera, have gone ban Indeed, average pretax profits alo Vegas strip last year were only s higher than in 1987, according to analyst Saul F. Leonard. With a development, Leonard says the will have a serious excess-capacity lem for the next two years.

Outside the oasis of Las Vegas, bling is becoming even more dic Atlantic City, for example, bus has dropped 10% in 1993, while o wagering is up a paltry 2.4%, a ing to the industry newsletter *A City Action*. The reason? woods, a new casino operat Native Americans in Led Conn., is siphoning off bus (page 82). And if Philad legalizes gambling, a mov city government is consid Atlantic City could be more grievously hurt, say *lantic City Action* edit Glasgow.

Newly opened territori vulnerable to overbuildi well. Since 1991, Colorad permitted gambling in three counties. But 75 gam operations had sprung u

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the beginning of this year. Already, 12 have closed their doors. Just two years after riverboat gambling was allowed on the Mississippi, there are nine floating casinos in Mississippi and 15 in Louisiana. Promus Cos. recently canceled plans to launch a boat in Biloxi, Miss., because it feared there were too many players in that market.

HEDGING BETS. The shakeout could speed up as the behemoths move in with their well-heeled marketing operations. Hilton, Circus Circus, and Mirage are among those competing for riverboat licenses. And several companies are clamoring to launch still more boats if Chicago votes to allow waterway gambling.

But while sheer muscle can overwhelm smaller players, size alone doesn't guarantee success. Bally Manufacturing Corp.'s Las Vegas casino operation only recently emerged from bankruptcy and is still considered a weak operator. The jury is also out on ITT Sheraton Corp., which spent $160 million in June to buy the fabled, if somewhat dowdy, Desert Inn from Kerkorian.

With development proceeding at such a blistering pace, some players are hedging their bets. Henry Silverman, chief executive of Hospitality Franchise Systems Inc., has just announced he is providing seed money to build a riverside casino in Vicksburg, Miss., and two casi-

nos on Indian land. Silverman inte use his marketing operation, books 50,000 bus tours and 100 hotel reservations a year, to pr the casinos.

Even Silverman is preparing shakeout, which he figures is three years away. At that poi hopes the weaker players will w sign on as franchisees, taking adv of his company's marketing abiliti then, those chastened companie have learned to leave the field to Wynn and other high rollers—th for whom blowing up hotels is simple marketing campaign.

By Ronald Grover in Los A

SO MUCH FOR THE PURITAN HERITAGE

Ledyard is a quiet town of 15,000 in southeastern Connecticut. On a crisp fall morning, the leaves along Route 2 are starting to turn red and yellow. Down the road, though, it's the cards that are turning: "Hit me," snaps a woman sitting at the blackjack table. The dealer turns over the king of hearts. This lady is out of luck.

The same can't be said for Foxwoods High Stakes Bingo & Casino. Since it opened, back in February, 1992, Foxwoods has become the most profitable gambling operation in the U. S., if not the world. "The intensity of our patronage is unbelievable," says G. Michael Brown, the former New Jersey state director of gaming enforcement who is now running Foxwoods.

Brown says that Foxwoods boasts a 45% operating margin, double the average of Atlantic City casinos. Its dealers have to work double shifts to keep the casino open every day, virtually around the clock. Indeed, early on a recent Friday morning, lines were already forming at the poker tables.

LOOSE CONSTRUCTION. Congress could hardly have envisioned Foxwoods when it passed the Indian Gaming Regulatory Act of 1988. The law allows Native Americans to offer any games of chance on their reservations that are legal elsewhere in the same state. Even though Connecticut doesn't have legalized gambling, the state construed the act to encompass Las Vegas-style games used in charity fund-raisers. Helped by such a broad definition, the Mashantucket Pequot tribe sought $60 million from 22 U. S. lenders in 1990 to build a casino on its reservation. All 22 refused. Finally, the tribe persuaded a company that operates casinos in Malaysia and Australia to put up the money.

Now, Foxwoods has grown into a bona fide temple of gambling. The casino is owned by 250 members of the tribe. But they leave its operation to Brown, who has built a 140,000-square-foot gambling area housing 233 card tables and 3,150 slot machines. A 280-room resort hotel is nearing completion, with another 312-room hotel under construction. And Foxwoods is adding a 1,500-seat showroom in November, to be followed by a boxing arena and bingo hall. The casino has gross annual revenues of nearly $500 million. The slot machines alone bring in $1 m every day.

BLACKJACK AT FOXWOODS, THE ONLY CASINO IN NEW ENGLAND

Why is Foxwoods so popular? reason is location: "Why drive hours to Atlantic City when you drive one hour from Hartford?" Brown. And as the only casino in England, Foxwoods doesn't face competition of a dozen other ca up and down the boardwalk. Fi don't forget the leaves: "We're lo in pleasant surround says Brown. "Fall fo is one of our biggest sons around here."

Not suprisingly, o ers have taken noti Foxwoods' success already this spring, Wynn of Mirage Re Inc. has lobbied law ers to legalize gam in Connecticut so h build gaming reso Bridgeport and Har The tribe stalled by negotiating an a ment to give the $30 million in 199 $100 million more year in return f monopoly on slot chines. But Wynn has vowed to up his campaign again in 1994.

One way or the other, Brown k competition will eventually arriv he's trying to develop customer lo by giving Foxwoods the glitz of Vegas casino. Tony Bennett will form here on Oct. 15 and 16, Frank Sinatra coming in Nove At this rate, Connecticut will so known as much for rhinestones sequins as for autumn leaves.

By Chris Roush in Ledyard,

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THE CONTRARIAN

WHILE OTHERS RETRENCH, SANDY WEILL BUILDS A FINANCIAL-SERVICES EMP

Sanford I. Weill gazed out the window of a helicopter transporting him from Hartford to his home in Greenwich, Conn. Holding a glass of gin, the Primerica Corp. CEO was savoring a successful meeting with employees of Hartford-based Travelers Corp. about the acquisition of their company by Primerica, which will be renamed Travelers. The way he described his sense of accomplishment was telling. "Travelers is bigger than American Express," he boasted, referring to his $10 billion in equity capital vs. AmEx's $8 billion.

In a way, Weill, 60, is getting his revenge on American Express Co. Weill left the credit-card giant in 1985, after it became clear he wouldn't be able to ascend to the top AmEx job and replace James D. Robinson III. He ducks the question, but friends say he blames the white-shoe, Establishment board of directors for obstructing his AmEx career. When the purchase of Travelers is completed in December, Weill will have the keen satisfaction of having created, in just seven years, a brand-name financial-services company that not only eclipses AmEx by some financial measures but also will be able to go head-to-head with Merrill Lynch and the giants of the insurance world, Metropolitan Life and Prudential. "My goal is to build the No. 1 financial-services company in America," says Weill, who just ordered 15,000 Travelers trademark red umbrellas to give out as gifts.

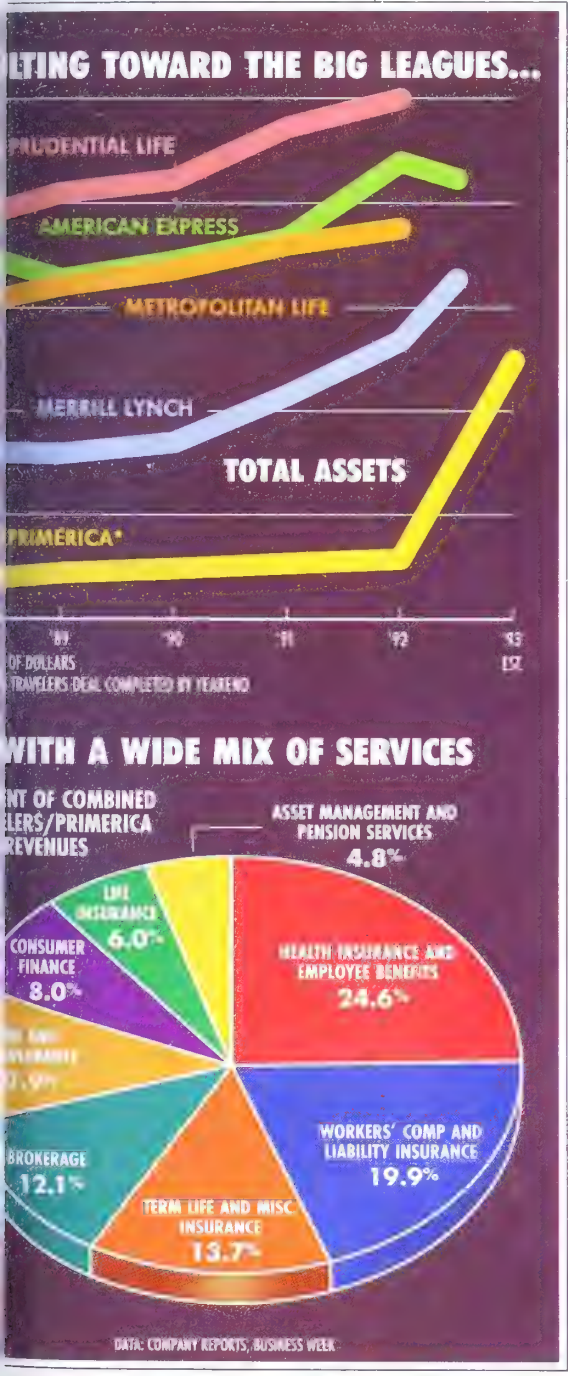
BROADER BASE. If Weill succeeds at his lofty ambitions, it won't be because he followed conventional wisdom. More than anything, Weill is an inveterate contrarian. He has assembled a financial-services conglomerate with $16 billion in revenues by doing things very differently from his competitors. While rivals are jettisoning businesses they bought in the heyday of the financial supermarket era, Weill is busy making acquisitions. When others are narrowing their focus, Weill is rapidly broadening his.

Unlike conventional empire builders

end to overextend themselves, has plotted his expansion prudent- has been careful not to dilute rica's earnings or load on debt vould cause his credit rating to AmEx did when it bought E. F. and Shearson Lehman Brothers. e several acquisitions since 1988, has pared debt and upped equity 1.2 billion in 1988 to $4.2 billion at id 1992. He acquired Travelers tock, taking advantage of Primer- ppreciating market value. The new ers is even under review for a s upgrade. "We see more diver- on of earnings," says Alan G. Mur- nior analyst at Moody's Investors e Inc.

The result has been steady growth in assets, earnings, and stock price. Since 1986, Primerica's earnings per share have grown 21% a year. Its stock has soared from 9 to 47 since 1990. With Travelers, Primerica's assets will be $100 billion, up from $23.4 billion—still well below its rivals but making it a contender the others can't ignore. Boasts Primerica President James Dimon: "We can double our earnings over five years."

Further, instead of competing for healthy properties, Weill buys vulnerable, troubled companies that few want, most notably Travelers, which was burdened with billions of dollars' worth of ailing real estate. "We were the only ones that didn't turn Travelers down," says Weill. He has made an art of buying companies on the cheap, from Commercial Credit Co. to Smith Barney, Harris Upham & Co. And even though he runs each business as a separate unit, Weill is pursuing the discredited 1980s notion of synergy. "The next test is to show that we can cross-sell products, something that hasn't been done effectively elsewhere," says Robert F. Greenhill, the new head of Smith Barney Shearson Inc.



REFUGEES. Weill's management style also goes against the grain. Unlike many financial-services monoliths where chief executive officers and employees own little stock, Weill runs his sprawling conglomerate as if it were a small family business with the owners' money on the line. Directors and managers are required to be big shareholders. And Weill obsessively eschews such bureaucratic hallmarks as organization charts and memos. "We're all refugees from larger, more traditional financial institutions," says longtime Weill lieutenant Robert I. Lipp, who spent 23 years at Chemical Bank. "A large, publicly owned company can be run like a privately owned company."

Yet Weill now faces the biggest turnaround test of his career. To engineer Travelers' comeback, Weill will have to unload some of its weaker businesses, although he denies that any sales are in the offing. "Our intention right now is to keep everything," he says. Then he will have to integrate Primerica and Travelers, which have very different cultures. Travelers' 35,000 employees and rigid managerial structure could overwhelm Primerica's entrepreneurial, decentralized system, which has a full-time headquarters staff of only 100. At the same time, Weill is seeking to repair Shearson, which lagged badly at AmEx, then combine it with Smith Barney and build an investment bank to challenge industry leader Merrill Lynch & Co.

"A BUILDER." The risks in his contrarian strategy are not inconsequential. He is building a securities firm after three stellar years for Wall Street. If the market tanks, a slump in trading volume combined with high fixed expenses would cost him dearly. Then there is the chance real estate could fall further and depress the value of his new Travelers assets. The biggest risk is hubris. "Everybody who has gotten big in this business has stumbled—Citibank, Bank of America. When is Sandy overextended?" asks one banker.

Weill claims his shopping spree is over. "I would be very surprised to see us do anything of any great substance in the foreseeable future," he says. But few believe he is finished with empire-building. "Don't dismiss the possibility that in three to four years, Sandy takes over American Express," says Perrin Long, research director at First of Michigan who sees a good fit between AmEx's and Travelers' businesses.

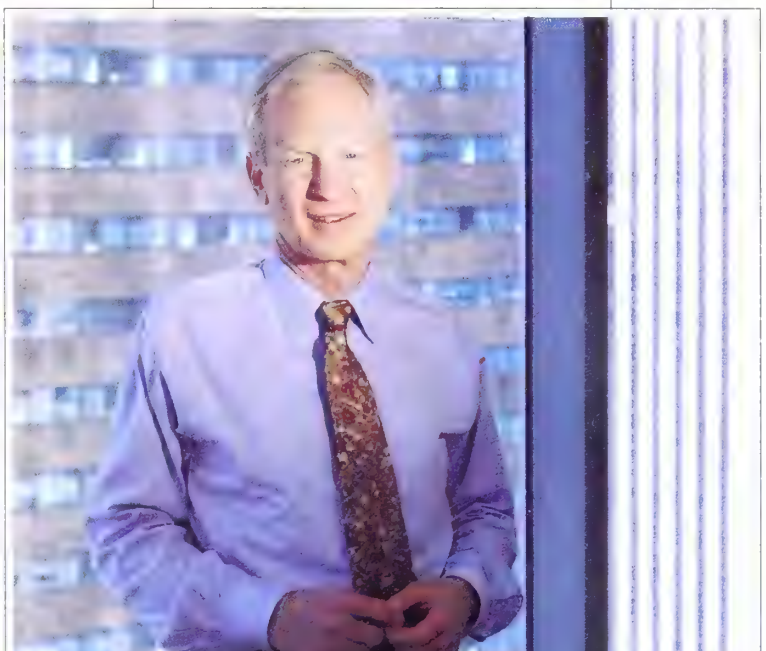
People expect big things from Weill because he has spent his career launching small companies and making them grow. He started with a small brokerage in 1960. It was the nucleus for an agglomeration of many securities firms that became Shearson, which he sold to AmEx in 1981. After leaving AmEx, he started all over with Primerica, which began as Commercial Credit in 1986. "Sandy is a builder, and he is driven by his love of building things," says James Robinson.

But it is Weill's skill at refurbishing new businesses that most sets him apart from other financial dealmeisters. "He is one of the great business managers in America," says John J. Byrne, CEO of Fund American Enterprises Holdings Inc. and a savvy insurance investor. "He likes to invest in things where he knows his operating and managing touch can make it a lot better."

To begin with, Weill is well-known as

a shrewd buyer of companies. While others battle for the most widely coveted companies, his juices start flowing when there is blood on the floor. Travelers was interesting only because it was weighed down by bad real estate, allowing Weill to buy in for a slight premium to its market value. And he drives a hard bargain. He bought Shearson's 8,400 brokers, state-of-the-art back office, and Manhattan real estate while leaving AmEx with most of Shearson's considerable litigation liability.

Weill's reputation as an aggressive bottom-fisher can turn some people off. Despite two weekend sessions with General Electric Co. CEO John F. Welch Jr. in May, 1992, the two couldn't ink a deal for Weill to buy Kidder Peabody & Co. One problem was that the two CEOs didn't get along—Welch even kept Weill waiting for an appointment, say sources close to the negotiations. Some Kidder insiders say Welch turned down the deal because in their negotiations with Weill, Kidder officials were bargained into putting a lower value on their own company. When this was brought to Welch's attention by GE's corporate financial officials, Welch walked away. According to a GE spokesman, Welch and Weill get along very well.



In absorbing acquisitions, Weill avoids using consultants and trendy management techniques. He gets to know the people at the company by spending time in the field and talking to employees at all levels. "He has always got better intelligence than others do," says John Castle, chief executive of investment firm Castle Harlan Inc. Then, he figures out who has to be replaced, whether it's just the CEO or other employees. Weill typically deputizes trusted aides to oversee the integration of new purchases. At Travelers, Primerica Vice-Chairman Lipp will be taking over as CEO from Edward H. Budd.

INCENTIVE PAY. Weill is ruthless in paring expenses. He sets up precise reporting systems so he can calculate profitability down to the level of individual offices. He roots out extravagance, such as Commercial Credit's lavish annual employee conference for agents that featured a performance by the Pointer Sisters. Economies of scale account for big savings. At Smith Barney Shearson, the large Shearson back office replaced Smith Barney's, eliminating 1,000 jobs. Some analysts believe he can save by combining some of Shearson's and Travelers' operations, such as the administration of their mutual-fund businesses.

Another key is revamping the compensation structure to link hard work to higher pay. At Travelers, Lipp is designing a compensation system, similar to the one at Commercial Credit, that will measure productivity only on the basis of factors that line managers can control. And bonuses are not spread so thinly that they become ineffective motivators. Just 45% of branch managers get a significant amount.

"WE'RE ALL REFUGEES FROM LARGER, MORE TRADITIONAL FINANCIAL INSTITUTIONS"

ROBERT I. LIPP
PRIMERICA VICE-CHAIRMAN

Employees at all levels are encouraged to own stock. Some 11,000 Primerica employees own 9% of the outstanding shares. And 2,900 senior managers get up to 25% of their pay in stock, which they aren't allowed to sell for two years. "Large companies tend to get very inward," says Lipp. "Sandy brings an outward orientation and a real feel like we own the place."

Smith Barney is a case st
Weill's modus operandi. The fir
Weill, was "asleep" when he bou
1988. It lost $100 million that y
1992, return on equity was 30%.
the highest in the industry, and
first half of this year it earned $
lion. To carry out the job, Weill
Frank G. Zarb, a longtime part
take over as CEO. Zarb remov
tired, or reassigned all the
heads, revamped the accounti
tems, slashed fixed expenses by
down businesses, and redefined
viously muddled mission to focu
tering to upscale clients.

Weill, indeed, m
big point of prunin
nesses that don't
such as the 1992
Margaretten &
mortgage compa
1992 alone, Pri
raised $625 million
ing nonstrategic
This keeps his ma
focused. And it giv
cash to raise div
buy back stock
pounce on new co
when the oppo
arises. Several a
believe Weill w
Travelers' health-in
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businesses.

"HE GROWLS." One
Weill's ability to
companies togethe
strong personality
can be both ben
and harsh. His gre
and informal
hides a tough-as-nails interior.
an intuitive sense of dealing with
and getting them to think he's
and fuzzy, even though he isn't,"
former employee. "If you work f
he's demanding. He growls."

Yet Weill is best known for
sonal warmth. He is the opposite
stiff, distant CEO isolated in a co
fice. He insists on getting to kn
top workers' spouses, and he fre
socializes with employees. One
evening, he was found sharing a
his office with Greenhill and
young investment bankers half
"Sandy is a very open, very ap
able person," says Castle. "Whe
him, he's back to me instantly—i
minutes."

Weill's personal touch is
breaking the ice at the somewha
Travelers. One late September
noon, after Weill and Budd held
meeting for Travelers employee

d over to Richard H. Booth, Trav- chief operating officer, and patted n the back, signifying that he was a good job. Booth, whose father ed at Travelers for 41 years and s a 20-year employee himself, was moved. "It was a highly emotion- ment for all of us," says Budd, who ecome chairman of Travelers' in- ce operations.

ill's other side was apparent in rdball treatment of some former yees of Primerica's predecessor ny, America Can Co. Some 2,500 es and their spouses are suing him egedly reneging on the company's se to provide lifetime health insu- for $5 a month. Primerica also ied employees' life-insurance poli- ays Judd Alexander, former head erican Can's paper division. Pri- a says the benefit agreement al- the company to stop subsidizing yee premiums, which American anagers dispute. "Primerica is one e richest, most profitable, most zed companies," says Alexander, nd part of it comes from pennies off a dead man's eyes. I'm mad." rica says it offered retirees group insurance, albeit at a higher price, hat employees signed a statement g them the cost was subject to e.

ill runs the company like a private Street partnership where the sen- icers have a say. A close-knit man- nt team called the Primerica Plan- Group meets monthly at a company in Greenwich, Conn. It has grown with the addition of two Shear- nd two Travelers managers. "It's t like family," says Edwin M. Coop- n, who runs Primerica Financial ces. "Sandy likes to argue with We have heated disputes. The pur- is to test you."

H PRAISE. At the meetings, the gers discuss one another's business ems. One reason Weill believes he ross-sell Travelers' and Shearson's ial products is because of the cohe- anagement group and its ability to rate and coordinate their separate esses. In general, financial-services anies have failed to cross-sell prod- because of bureaucratic confusion ifighting.

decisions are put on the table. n the issue came up, what are we to pay for Travelers," says Green- the whole group talks about it and sks, and we develop a consensus." hough Weill ultimately calls the his managers regularly disagree him. Zarb recalls clashing with during late-night negotiations to hearson. Weill was furious at him igging in his heels on what Weill lered a minor point. Zarb recalls how Weill capitulated to him: "He was red in the face. He slapped his hand on the table. He said, 'If we don't do this deal, I don't want to talk to you about an acquisition for Smith Barney for'—and then he paused—'at least 30 days.'"

The one who argues most with Weill is Dimon, his 37-year-old president, chief financial officer, and all-around alter ego. He worked with Weill at AmEx and followed him when Weill struck out on his own in 1985. Smart, quick, and likable, Dimon and his boss enjoy the rapid-fire banter of two people who spend more time together than they do with their families. When Weill at one point insisted that his planning committee feels free to disagree with him, Dimon corrected him. Only "five people would say" what they think, said Dimon.

Weill is lavish with his praise of Dimon. "Jamie does the work, and I crit-

WEILL'S MUSHROOMING EMPIRE

1986 Spins off Commercial Credit from Control Data in IPO worth $850 million.

1988 Acquires Primerica, which includes Smith Barney, a brokerage house, and the A.L. Williams insurance firm for $1.5 billion. Later sells several divisions, such as Fingerhut.

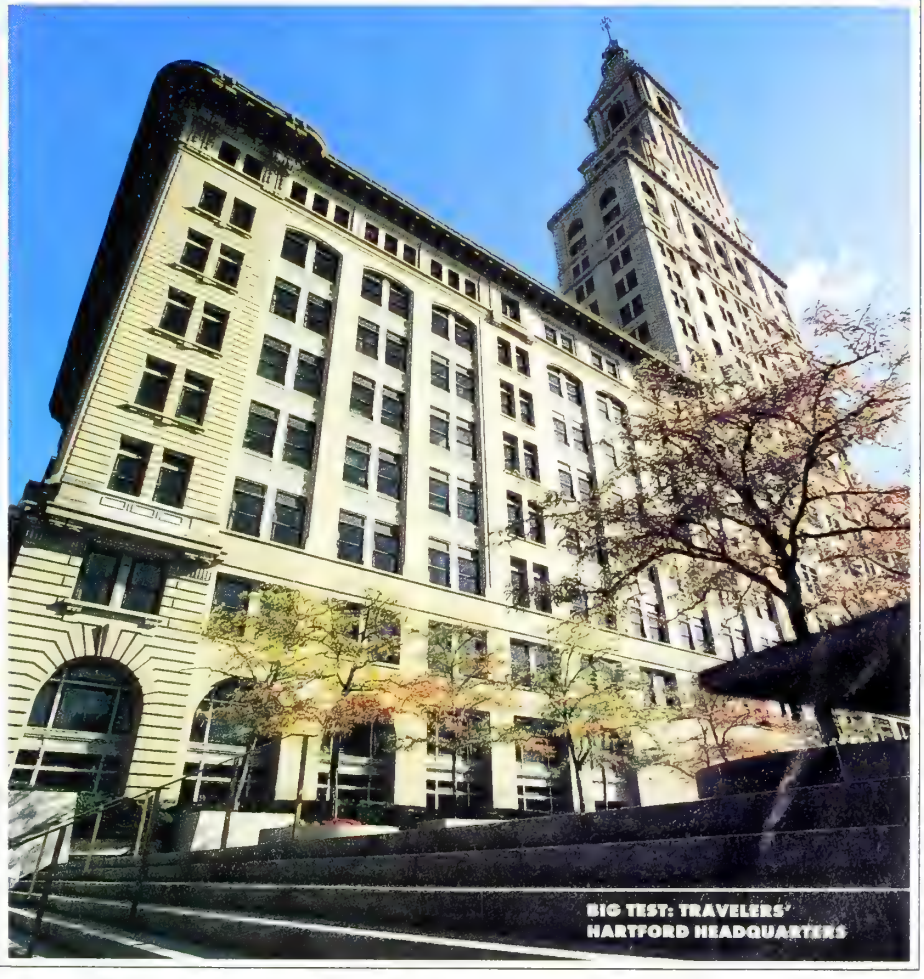
1990 Buys the consumer lending operations of Barclays American/Financial for $1.3 billion.

1991 Acquires receivables and branches from Landmark Financial Services.

1992 Buys 27% of stock of insurer Travelers for $722 billion.

1993 Acquires Shearson Lehman Brothers from American Express for $1.2 billion in March. In September, purchases remainder of Travelers with $4 billion in stock.

DATA: BUSINESS WEEK



BIG TEST: TRAVELERS' HARTFORD HEADQUARTERS

FREDERICK CHARLES

icize," says Weill playfully. They both deny any father-son dynamic. "I have a son, and he has a father," says Weill. "It's not a need that has to be filled. But there's a lot of love there."

Yet Weill doesn't hesitate to reshuffle his most loyal managers if he thinks it necessary. When he nabbed Greenhill from his job as president of Morgan Stanley & Co., Weill gave him the title of CEO of Smith Barney Shearson and kicked Zarb upstairs to a more senior but lower-profile position. Louis Glucksman, a longtime Wall Street trader, was shifted from the top investment-banking job at Smith Barney and became a "senior adviser."

The biggest test of Weill's management style will be how he deals with the operational issues at his company. At Shearson, Weill has a hugely ambitious plan to build up Smith Barney's small investment bank so he can compete with the likes of Merrill Lynch and Morgan Stanley. Greenhill has hit the ground running. He is mapping out a three-year plan to target derivatives, currencies, emerging markets, and trading in Europe and the Far East. And as adviser to Viacom Inc., he is in the middle of the takeover battle for Paramount Communications Inc. Says Greenhill: "Smith Barney Shearson will be one of the primary earning engines of the combined companies."

Rivals question whether it's possible for anyone to build a sophisticated global operation when many others, from Prudential Securities Inc. to PaineWebber Inc., have failed miserably. There have been serious foul-ups already. Switching Smith Barney brokers to Shearson's computer systems caused dividend checks to be sent out incorrectly and trading delays. And the fact that Lehman Brothers, with its trading savvy, was not included in the Shearson purchase will further stymie Smith Barney Shearson's ability to serve its customers.

BIG AND STRONG. More broadly, some critics say what Weill has created is something of a hodgepodge with clashing businesses. For example, Primerica Financial Services hawks term life insurance by aggressively discouraging the purchase of the whole life insurance that Travelers agents sell. Critics say Weill is not a visionary but an opportunist, just nabbing bargains when they come along.

Weill disputes this assessment. He says he has a vision, that of a big, complex financial-services conglomerate with a number of different and separate customer bases. Weill rejects the idea that his many sales forces and products will clash with one another. "We have a much broader outreach to different demographic sectors [than competitors]," says Weill.

His strategy is to get into even more businesses and to garner a more commanding market share in each. With

PRIMERICA PRESIDENT JAMES DIMON ENJOYS A CLOSE RELATIONSHIP WITH WEILL—AND ISN'T AFRAID TO CRITICIZE THE BOSS. SAYS WEILL: "THERE'S A LOT OF LOVE THERE"

Travelers and its widely known brand name, Weill feels he will have the capability and the capital to create new products to sell to an ever wider variety of customers. Until the acquisition of Travelers and Shearson, the core businesses were brokerage, term insurance, and consumer finance. Now, the core includes property-casualty insurance, life insurance, health insurance, money management, and investment banking, which he has long shunned. "Weill clea lieves that to be a significant pl financial services, you have to dominant, and have a strong base," says James Quella, a con with Mercer Management Consu

Weill talks also about reaching masses where more and more sy will be possible. For example, big potential in selling Travelers ities to Smith Barney Shearson

Despite the demands ahead, quite visibly having the time of He is basking in the accolades friends and shareh from Reliance Fi Services Corp. CE P. Steinberg—wh Weill's buying Tr "was better than n ing Reliance"—to C cut Governor Lo Weicker Jr., who to have Weill in th as an employer.

Weill's wealth him a big man on in New York C 1992, he earned $66 lion, mostly from ing options gran 1986, making hi country's second-h paid chief executiv he got new options million shares, about $20 a share, a program which r some existing opti is chairman of Ca Hall, where his suc raising $60 millio renovation earned eponymous concer

Weill's oldest friends still ma his success. "We weren't sure if us could run anything bigger tha dy store," recalls Arthur Levitt, t chairman of the Securities & Ex Commission, of their early Wall days together. "Sandy and I were ing about taking the People E plane out to Minneapolis just years ago to talk to Control Dat selling Commercial Credit," says hill. "I was working for him with because he was unemployed."

Today, Weill travels by priva copter, not People Express. Mo most senior executives, his succ come from doing things his way. not about to change. "Sandy is going to retire," says an inve banker. "He wants to leave a le great company he built." With t Travelers, Weill has a shot at ju

By Leah Nathans Spiro in Ne with Chris Roush in New Haven

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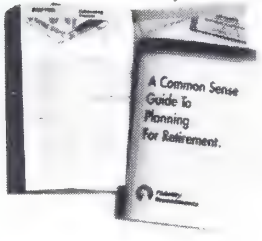

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BY GENE G. MARCIAL

A SLEW OF SUITORS WANTS TO SHOWER CAREMARK WITH TLC

Caremark International was a buyout child of the 1980s, having been acquired in 1987 by Baxter International. But last November, Caremark regained its independence when it was spun off by Baxter—whose loss appears to be the shareholders' gain. Caremark International has become the nation's leading and most diversified provider of health-care products and services to patients released from the hospital. And Caremark's lucrative mail-order prescription-drug business is also thriving.

So why has the stock, now trading on the Big Board at 15, retreated in recent weeks? In the wake of the debacle suffered this year by the entire health-care-stock group, an army of bears has been shorting Caremark. The shorts have been particularly dumping the shares of companies that provide home health-care services.

"EXPLORATORY" TALKS. But don't be fooled, says one New York money manager who has started buying in. "This undervalued, largely ignored stock is ready to break out to higher levels." Why? He believes Caremark has become a takeover target.

Ever since Merck agreed in July to pay $6 billion for Medco Containment Services, the nation's largest mail-order marketer of discount prescription drugs, other pharmaceutical companies have been anxious to get into the same business.

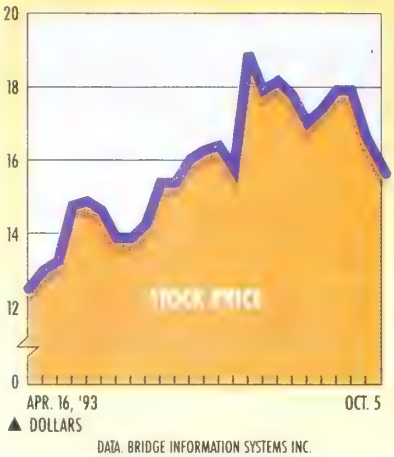
This pro says about 10 major pharmaceuticals have expressed interest in Caremark. Executives of these companies, he insists, have met with the Caremark brass "to discuss all kinds of possibilities, including a buyout, merger, or strategic alliance. The talks were exploratory, and no decisions were reached," he adds. Caremark, which is expected to pare its options to five proposals, declined comment.

One analyst at a San Francisco investment firm figures that in a buyout, Caremark is worth "at least $40 a share." But even without a buyout, this analyst says it is worth $20 to $25 a share, based on projected earnings growth over the next two years.

Joseph France, a Merrill Lynch analyst in New York, says Caremark is positioned "to be a major beneficiary of nearly any cost-containment program we see coming out of Washington." He adds that the company will become "an increasingly important hub in the health-care-delivery system."

As France sees it, Caremark's strategy of aggressively cutting prices bodes well for its outlook. Earnings this year could rise to $1.10 a share from last year's $1.02 and hit $1.30 in '94. France is impressed by Caremark's "strong competitive strengths," particularly its "strong position in the mail-order prescription-drug industry."

CAREMARK: WELL AND GETTING HEALTHIER



DATA: BRIDGE INFORMATION SYSTEMS INC.

A REAL ESTATE PLAY SCORES REAL POINTS

Remember Patten Corp.? The shares of this real estate company zoomed on the Big Board in just one year—from 3 in early 1986 to 18 in 1987. Since then, the stock has come back to earth, currently trading at 3⅞. So now the smart-money crowd is moving in. The legendary global investor, John Templeton, is one fan, and the Templeton funds own a 15% stake in Patten.

What's so alluring about a highflier that has crashed? "Patten has been cleaning up its act and has managed to gradually move back into the black," says one New York investment manager. Patten's specialty is acquiring undeveloped rural properties and subdividing them into parcels sold mainly to residents of metropolitan areas for recreational, retirement, or investment purposes. The company finances up to 90% of the price of properties it sells.

Not surprisingly, Patten has been ignored by the Street since posting huge losses in 1990 and 1991. ...has diversified its real estate po... away from the depressed North... the South and Midwest. In th... cess, the company has cut ov... and operating costs and sold ... ables to pay down debt.

The result: Patten earned 6¢ a... in the year ended Mar. 30, 199... 20¢ in 1993. Next year, one a... expects Patten to earn 30¢ and i... 50¢. "This is a classic turnaroun... with the stock at its bottom," h...

Patten recently entered into ... ture with homebuilder Jim Walt... under which Walter pays Patten ... fee for each house it builds fo... ten's customers. That is expec... solidify Patten's earnings base.

K-TEL TUNES IN TO INFOMERCIALS

No, K-tel International isn... of those ubiquitous tele... companies, and it isn't a ... affiliate. It's a worldwide marke... consumer products including ro... country music compact disks, ex... videos, and kitchen gadgets su... Veg-O-Matic machines and X Kl... knives. Of late, K-tel has caug... Street's eye: Its stock has jumpe... a share, from 4½ in mid-March.

What's going on? "K-tel is now... into infomercials in a big way, ... in Europe," says President Mick... fenbein. He notes that K-tel isn... to the extended television comm... format—K-Tel produced mini-in... cials for its Veg-O-Matic slice-an... machines 15 years ago. This time... plans to team up with a major... marketer of consumer products f... European market. K-tel markets... ucts to retailers and distributor... through TV direct-response ads.

The company also licenses ... owned music or video rights to... parties worldwide. It has a large ... library, mainly consisting of pop, ... jazz, and country songs from the 9... through the 1970s that have been ... piled into "great hit retrospectives."

Analysts haven't included th... tential windfall from the Europea... ture in their estimates, says Pain... ber's Stan Trilling. He figures t... even without the infomercials, ... should earn 85¢ a share in the ... ending June 30, 1994, and $1.10 in 19... vs. 1993's 72¢. Trilling says the t... should hit 15 over the ne... months—potentially beautiful mu... shareholders.

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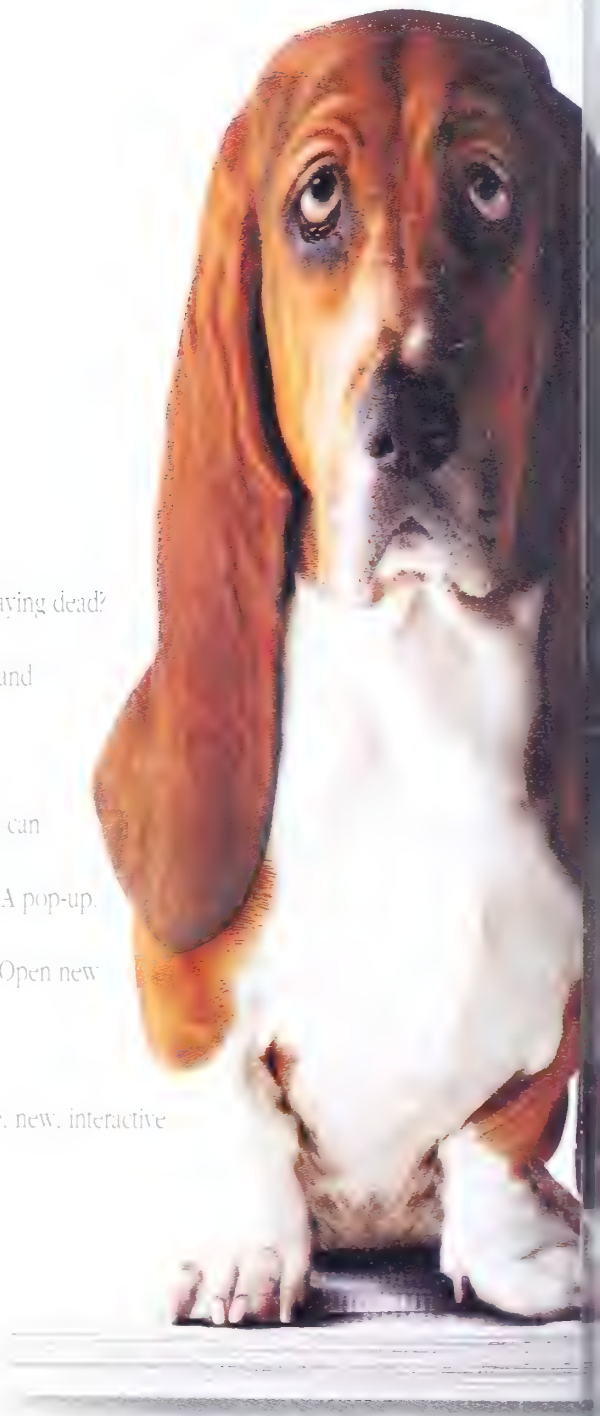

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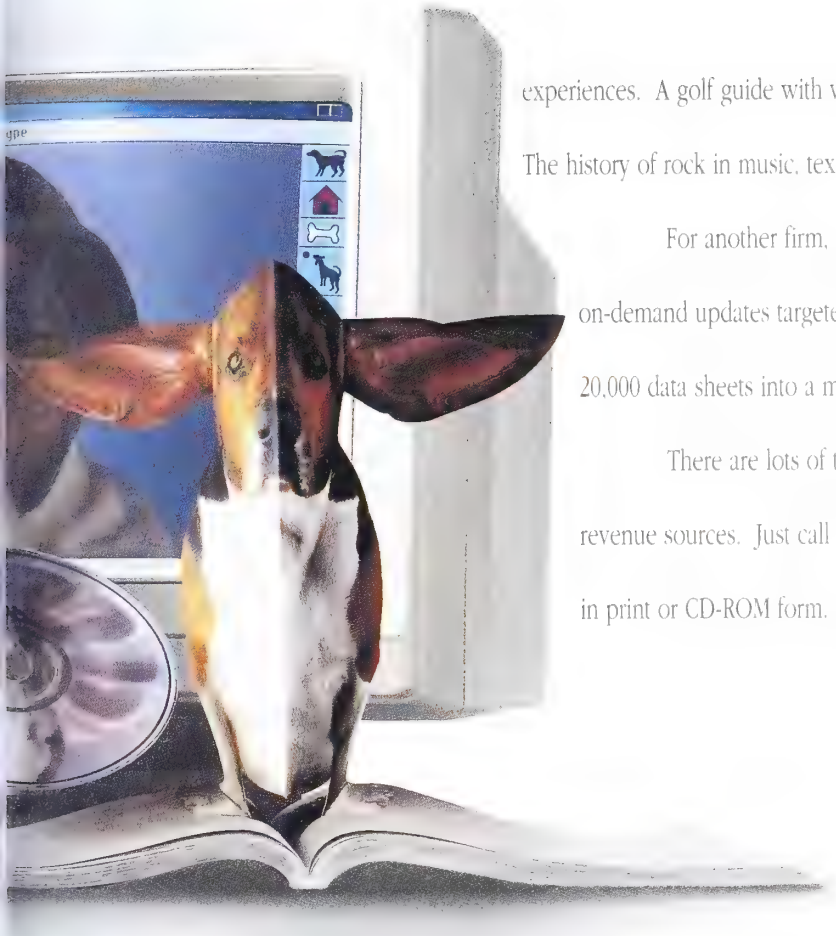

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ALTH CARE: BUSINESS ASKS IO'LL BE IN CHARGE

n's giant health alliances are scaring many

most looked as if Hillary Rod- Clinton had a Republican con- for her health-care reform plan. cent Capitol Hill hearing, Repre- ve Cass Ballenger (R-N. C.) de- the savings he had achieved is company, Plastic Packaging d 32 other small North Carolina ers formed an insurance purchas- op. An enthusiastic First Lady that the health alliances envi- by the Administration would he same benefits to everybody. would anticipate greater savings," id. But Ballenger nother difference. in the alliance," he n the new system, the will run us."

one yet knows r sure, but er's charge a growing mong busi- and health s. President Clin- ueprint for health- reform depends y on health alliances. White House sees it, uge cooperatives—or- by the states and run sinesses and consu- will be efficient mid- who will sell families dividuals a choice of ge plans. The regional es will use their buy- it to drive down prices sure quality care. Clintonites draw their tion from the success ting purchasing coop- s. Recently, small companies have together to slow health-care in- in Cleveland, Denver, Memphis, her cities. Large employers have ed from a similar tactic. Offered a of plans at different prices, em- s at Xerox Corp., Digital Equip- Corp., and the state of California ed to lower-cost plans—with in- satisfaction with health services. critics worry that there's a world of difference between voluntary efforts and Clinton's mandatory, state-sponsored approach. The President's alliances "are pork barrel in the making for governors and legislators," says Stanford University health economist Alain C. Enthoven. Sharing this concern, Republicans and many Democrats are sharpening their scalpels to trim the size and clout of the Clinton co-ops.

TO JOIN OR NOT TO JOIN

Under Clinton's proposals, big companies can either join a regional health plan or run their own benefits plan as "corporate alliances." Here's what an analysis of several industries shows:

HEALTH COSTS AS A PERCENTAGE OF PAYROLL

Company	Regional alliance*	Corporate alliance**
HEAVY MANUFACTURER	27.5%	23.3%
PHARMACEUTICAL MAKER	6.6	7.3
BIG SOFTWARE COMPANY	4.2	3.2
LARGE RETAILER	11.6	13.2
LARGE BANK	6.7	9.1

* Premiums would be capped at 7.9% of payroll, but after nine-year phase-in

** Includes 1% payroll tax

DATA: TOWERS PERRIN FORSTER & CROSBY

Size is the alliances' most startling feature—and, says the White House, the key to their success. The Clinton plan would enroll three out of four Americans in the regional cooperatives, and the Administration would like the number to go even higher. Near-universal enrollment would largely replace today's employer-run health insurance coverage with a system that lets consumers pick where they get care, which the Administration sees as a major selling point.

With almost everyone in these co-ops, White House aides hope they can eliminate "cherry-picking"—insurers' practice of excluding people who are likely to rack up big medical bills. In the new system, any insurer doing business with the alliance will have to sign up any member, regardless of age or illness. "Without big alliances, we would have the same problems as the system has today—insurers who spend lots of money avoiding risks instead of managing care," says sociologist Paul Starr, who helped lead the Clinton health-reform team.

Big alliances are also vital to Clinton's cost-control goals. The White House wants to cut medical inflation from the double digits to 4% in just six years. To carry that out, these groups would have powerful weapons to hammer down premiums and trigger new taxes on health plans whose prices exceed the budget cap. They could even bar uncooperative insurers altogether.

That great power scares many large employers, who say they'll steer clear of the new agencies. Clinton's plan would give companies with more than 5,000 employees a choice: They could continue to run their own benefits plans as "corporate alliances," or they could join the regional groups. The costs of making that choice vary according to the age and health of workers (table). But those that stay independent will give up premium caps and subsidies for low-wage workers and pay new payroll taxes to help fund the reform plan.

ONE-WAY TICKET. Even with those hurdles, most large employers much prefer to remain in control. A new survey by consultants Hewitt Associates found that 54% of the 370 employers polled said they "were very likely" to maintain their own health plan. The companies doubted the alliances could rein in costs and didn't want to surrender control over their employees' health plans. Other companies note that once they sign up with a regional alliance, the Clinton plan won't let them opt out.

That one-way ticket, executives add, heightens concern over who will run the show. Clinton wants the alliances to be

PETER KLEFF

run as nonprofit agencies over boards representing business a mers. But as it stands now, st hand the job over to state offic iticians may be tempted to g power: In 35 states, the flow o care dollars through alliances c ceed the total state budget.

Small employers won't have tion of running their own pla health experts fear they'll be s up in bureaucracy. James C. Ro health economist at the Unive California at Berkeley, frets tha liances may resemble "the state

In 35 states, spending health-care alliances c exceed total budget

utility regulators, with all the s and weaknesses they show."

Such arguments have already lawmakers in Florida and Wash two states now organizing hea chasing cooperatives. Governors state proposed mandatory en for small-business employees. a mandate, says Philip Nudelm and president of Group Health C tive of Puget Sound, regional a "could work toward a two-tier with the poor going through a alliance and the not-so-poor through a separate system."

POLITICAL REALITY. But in both business and insurers' groups heavily, arguing that they should forced into untested agencies. end, the legislatures converted ances into voluntary purchasing atives—a result, says Florida he cial Douglas M. Cook, that "refl reality of politics."

That same reality is likely sway on Capitol Hill. Moderates sides of the table are insisting alliances be smaller than Clint sions, freeing employers with as few as 500 workers to overs own plans. Conservative Dem would make alliances mandato for small companies, while Rep would let business groups band t voluntarily. Both camps oppose s caps and wouldn't give alliance power to set prices. In the face pressures, the White House may scale back its goals—and give en more leeway to curb health c their own.

By Mike McNamee in Wash with Chris Roush in New Haven reau reports

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EDITED BY AMY DUNKIN

TRAVELING WITH KIDS

HOW TO GET A LITTLE R&R WITH THE TOTS IN TOW

Eleven-year-old Mary Ellen Cravens knows what makes for a good hotel. A pool, playground, and video arcade are musts, of course, and she thinks some sort of organized scavenger hunt would be an especially "neat" way to explore the grounds. If she had her druthers, the hotel would also offer karaoke, and—brace yourselves, parents—water-balloon fights among guests.

Virgin Atlantic has backpacks with games and a coloring book

Cravens has clout. She is 1 of 16 children to win a spot on the Camp Hyatt Kids Council, comprising girls and boys between 7 and 13 who provide Hyatt Hotels executives with the young person's perspective on family travel. More than 200 kids responded earlier this year to a simple query: What could Hyatt do to make hotels better for kids? Among the answers: free ice cream, in-room Nintendo, and restaurants for children only.

Many resorts, cruise lines, travel agencies, and tour operators are putting together a variety of family-oriented packages and kids programs, from familiar Disney destinations to faraway safaris. Some hotels try to hook the whole family at the tail end of one of Mom's or Dad's business trips. The Four Seasons Inn on the Park in Toronto pushes its corporate identity during the week—there's a full-service business center—but loosens its collar on weekends and during summer with its no-cost Innkidz program, for ages 5 to 12. It lets youngsters design name tags, watch movies, and play games in and around the pool. Children under 18 stay free year-round.

The supervised Camp Hyatt program is aimed at juniors from 3 to 12. While parents play 18 holes, sun by the pool, or enjoy a moment of escape, their offspring can take in puppet shows, learn tennis, and bake cookies. The cost varies by property—$5 per hour or $30 per day per child are typical, and meals are sometimes extra.

TOILET LOCKS. In evaluating a children's program, parents should ask how flexible the hours are, says Dorothy Jordon, publisher of *Family Travel Times* newsletter. Other questions: Is there a fee? Are there sibling discounts? You should find out the age breakdown—a program that lumps together 3-year-olds with adolescents can't possibly satisfy both. Club Med's family villages, for example, offer Petit Clubs for 2- and 3-year-olds, Mini Clubs for the 4-to-7 set, and Kids Clubs from 8 through 11. The Sandpiper village in Florida also has a Baby Club for tots 4 months to 2 years. Until mid-December, and resuming in January, kids 5 or under stay free with their folks at several Club Med family resorts (800 CLUB MED).

Hotels near Disney World take catering to kids seriously. At the Holiday Inn Lake Buena Vista and Holiday Inn Main Gate East in Florida, parents with infants can ask for a free "childproof" containing a night-light, alarm, toilet-lid lock, and seat.

Yet a holiday with your may not take you anywhere near Mickey Mouse but Instead, trips for the can land you Down Un

Some illustrations used in this section were done for *Business Week* by the students of Mr. Lindberg's 5th grade class and Ms. Lemis' 2nd grade class at Pine Grove Elementary School in Avon, Conn.

ILLUSTRATIONS BY MATT ... GRADE 5; JENNIFER MCDOUGALL, GRADE 2; TORIE ELLIS, GRADE 2; JESSICA VOADEN, GRADE 2; KELLY O'BRIEN, GRADE 5; (CENTER L TO R) ILLUSTRATIONS BY JENNIFER MCDOUGALL, GRADE 2; KAREN BARBOUR

ıg Central American ests. Says Stamford child psychiatrist Ir- ɛewitz, who carted his ıe on an African safari through Educational Adventures (800 972- Visiting a Masai village ng children adorned in arb and living in mud ested with flies is an ning experience for

an kids. That's some- ou don't see in Disney

ational Family Adven- combines vacationing arning. Its next Afri- ari is set for late June t of $4,995 per person, ıg airfare. The trips, aimed at children 6 to 16, also include the Galapagos Islands, China and Singapore, and Australia and New Zealand. The company dispatches videos, books, and articles about the destination, so parents can brief kids ahead of time. Once the trip is under way, the kids are encouraged to keep diaries and are given quizzes: Correct answers win candy bars.

Grandtravel (800 247-7651) in Chevy Chase, Md., aims to bring grandparents and grandchildren together. The company offers a variety of escorted tours including a 15-day World War II remembrance trip to southern England and Normandy planned next June and July, around the time of the 50th anniversary of D-Day. The cost of $4,335 for grandparents and $4,295 for the children includes everything but airfare. Rascals In Paradise (800 872-7225), Families Welcome (800 326-0724), and Journeys International (800 255-8735) are other travel agencies that promote familial bonding.

For treks close to home, Mountaineers Books publishes excellent guides in the *Best Hikes with Children* series ($12.95 each, 800 553-4453) that cover parts of the Northwest, California, New England, and the Catskills. The books rate the trail's degree of difficulty for kids.

In choosing a vacation site, travel experts advise parents to consult with their children, but it's important to balance their wishes with your own. "There's nothing worse than planning a vacation for the kids that is not exciting for you," says Jordon. Her newsletter ($55 year, 212 206-0688) is loaded with travel ideas for parents, including news of hotel programs and mini-reviews of books kids can take on the road. *Trouble-Free Travel With Children* by Vicki Lansky ($6.95; The Book Peddlers, Deephaven, Minn.) is another fine resource for itinerant families, with common-sense hints on planning, packing, and entertaining the troops. *The Family Travel Guides Catalogue* (510 527-5849) lists a broad range of travel guides, audio cassettes, and games.

Once you've selected your destination, getting there hassle-free can be a challenge. Sealed With A Kiss in Rockville, Md. (800 888-7925), puts together customized $30 gift packages of toys, books, and other time killers for kids who travel by plane or car. A 10-year-old boy recently received a dozen goodies ranging from an invisible-ink sports quiz book to a Chinese puzzle.

The skies are becoming friendlier for children. In general, toddlers under 2 fly free on someone's lap on domestic airlines and are charged 10% on international flights. For safety reasons, Jordon recommends purchasing a separate ticket whenever possible and using a car seat that has been approved by the Federal Aviation Administration for air travel. Southwest Airlines has infant prices that are 10% off its lowest fare in the market. Many airlines offer kid's menus that must be reserved in advance. Young passengers on United Airlines flights can order cheeseburgers from McDonald's. Whatever the cuisine, parents are advised to bring along snacks and drinks in a carry-on bag.

SWITCH SEATS. A number of airlines have activity books and other in-flight entertainment. Virgin Atlantic gives out a backpack with crayons, coloring book, and games. Virgin also provides child seats, and little ones can watch cartoons or other kid-oriented programming. Delta has set up a Fantastic Flyer program for children 2 through 12. Members are sent a magazine four times a year with games, puzzles, and articles written from a child's point of view.

Parents who take the kids by car have their own advice on staying sane. "Change the scenery as often as possible," says Sandi Popowitz, a North Potomac (Md.) mother of two. On a long drive, that means letting the kids switch seats from time to time and making frequent stops. Whenever practical, some families also like to depart when it's dark: there's less traffic, and the little ones are—you hope—snoozing. Of course, no matter which strategies they try, veteran road warriors know at some point they'll hear those dreaded words: "Are we there yet?" *Edward Baig*

SKIING

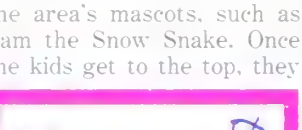
GIVING THE WHOLE FAMILY A LIFT

MAJOR SKI RESORTS OFFER LESSONS, CHILD CARE, AND ENTERTAINMENT FOR CHILDREN

If you're looking for a vacation where your kids will have plenty to do, it's hard to beat a ski trip. In recent years, many resorts have dramatically upgraded and expanded their children's programs—both on and off the slopes. They're offering everything from trails that pass through a simulated Western fort to child-friendly lifts and après-ski activities for the toddler set.

When shopping for the best package for your family, your first concern will probably be the ski school. Most major resorts offer all-day programs for kids, including child care for as young as 6 weeks. Vail in Colorado boasts over 350 instructors who work just with kids. That's important, "because children learn very differently from adults," says Marty Harrison, chairman of the Children's Committee for Professional Ski Instructors of America. Harrison, who directs the ski school at Vermont's Okemo Mountain, recommends a program with a separate teaching area for younger children. For preschoolers, a student-teacher ratio of 4 to 1 is ideal; older kids do well in larger groups.

The best ski schools also capitalize on children's love of fantasy. Vail Mountain is dotted with such ski-through adventures as the 12-acre Fort Whippersnapper and Gitchegumee Gulch, an Indian village. This winter, Vermont's Smugglers' Notch is opening Mogul Mouse's Magic Lift, which moves at half the usual speed and is decorated with the area's mascots, such as Sam the Snow Snake. Once the kids get to the top, they



The best ski schools cater to kids' love of fantasy

ski down a Magic Learning Trail that cuts through a cave inhabited by Billy Bob Bear.

On the more serious side, make sure the ski school is large enough to separate kids based on age and ability. Most start teaching children as young as 3. But no self-respecting teenager would be caught dead in a beginner's class with 6-year-olds. With that in mind, Smugglers' Notch offers an Explorer Program for teens that starts with an afternoon ski lesson and continues into the evening with activities such as ice-skating and "snow golf." If you have pre-schoolers, you'll want to make sure the resort offers a well-equipped day-care center, since the kids will need to spend at least part of the day indoors. Also ask about security measures: Some areas give parents beepers so they can be contacted in an emergency.

Unfortunately, too many parents are disappointed because of their own unrealistic expectations "that children pick up skiing quickly," says Harrison. In most cases, young children won't even be riding a chairlift at the end of the first day. Also, many parents make the mistake of taking their kids down more advanced slopes as soon as they have learned how to turn and stop. "But that only aggravates the tendency of children to stiffen their legs and sit back when they ski," Harrison says.

If your kids are still learning, your best chance to do things together may come after the lifts close. Many resorts feature indoor pools, ice-skating, and sleigh r
Aspen, you can ta
kids on a dogsled rid
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Wyoming's Jackson H
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better time than M
Dad. *William*

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VILLAS

PRIVACY IN PARADISE

Picture yourself sipping a cool lemonade, lounging alongside a private pool, staring at the crystal blue waters below you. You probably just came up from the beach, where you spent the day absorbed in the first novel you've read in months, while the kids were off snorkeling near a coral reef. Now, you're back home, freshly showered and ready for a night on the town, once the baby-sitter arrives. In the meantime, the kids are watching a Disney flick on the VCR in the living room, and your spouse is napping in one of three spacious bedrooms. Five o'clock rolls around, and the cook comes by to prepare some local fish and vegetables for dinner.

This is no dream. This is Green Cay Village in Orient Bay on the island of St. Martin, one of thousands of deluxe villas available to vacationers throughout the U.S., Caribbean, Mexico, Europe, or almost any destination you can think of. Villa rentals include everything from condos to castles to cabanas, and they are one of the most popular—and fastest-growing—travel alternatives today. Honeymooners, businesses, and families (which make up about 50% of the villa-rental market) are all discovering the allure of a home away from home. The reason: Villas offer luxury, privacy, first-class service, and perhaps most importantly, good value. "It's a dream come true for a lot of people," says Paul Mermelstein, president of Island Hideaways, a first-rate agency that specializes in Carribean properties (800 832-2302).

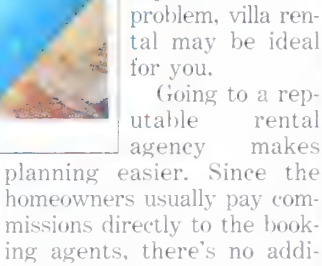
PLAN AHEAD: BOOK CHOICE SPOTS SIX MONTHS TO A YEAR IN ADVANCE

EXTRAS. At Green Cay, for instance, a three-bedroom, three-bath home with private pool and terrace overlooking the Caribbean can be had for as little as $2,800 a week. That's $400 a night, including maid service, airport transfers, and many other customized extras. Not bad when a standard room at a comparable hotel on St. Martin starts at $300 a night, not including such add-ons as taxes, tips, and steeper restaurant tabs.

Depending on location and individual needs, travel experts estimate that private homes generally go for as little as $700 to as much as $35,000 a week. What do you get for $35,000? A 72-acre Caribbean island called Little St. James, near St. Thomas, all to yourself. It comes with three private beaches, pool, Jacuzzi, speedboat, and full staff—including concierge, boatman, gardener, and cook. The four-bedroom, five-bath estate is one of a kind.

Of course, villas aren't for everyone. For one thing, they offer little flexibility. Once you make a reservation, it's almost impossible to reschedule plans or secure a refund. In addition, some travelers complain that villas are isolating and require too much independence when it comes to finding top restaurants or hot tourist attractions. And for some, the idea of staying anywhere near a kitchen is a complete turnoff. But if these aspects aren't a problem, villa rental may be ideal for you.

Going to a reputable rental agency makes planning easier. Since the homeowners usually pay commissions directly to the booking agents, there's no additional charge for using their services. You can bypass the agency and rent directly through owners, but it's risky. While you may save a bit, the quality and selection of properties are less reliable. choosing an agency—and are a lot of them—be company inspects p personally and prov cal contact at your tion to help with a pected problems. So best villa-rental ope clude VHR Worldw 633-3284), Villas Int al (800 221-2260), an a Caribbean specia 932-3222).



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Agents can arrang any individualized pr long as they're give of notice. When my and I were at Green year, we had one of chefs on the island our villa to prepare lit dinner for two, w ate under the stars deck. The best thi villa vacations, other ing able to eat brea your pajamas, is th to create your own And generally, you when you're living i surrounded by a sp view, there's no pl home. *Linda H*

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CRUISES

SPENDING QUALITY TIME ON THE OCEAN BLUE

It's tough to satisfy both a 3-year-old and a 9-year-old. As a father of both, Ignacio Rodriguez of Miami knows that well. So he was a bit anxious when he and his family took a four-day cruise to the Bahamas last year on Royal Caribbean Cruise Lines' Nordic Prince. But to his relief, the kids were kept fully entertained with a full schedule of sports and activities during the day and dancing in the discotheque at night. "It was a very nice experience," said Rodriguez.

Unlike many family vacations in which parents sacrifice rest and relaxation to ensure that their children have fun, cruise lines are trying to put together vacation packages that will satisfy everyone. While Mom is taking an aerobics class and Dad is napping by the pool, the kids might be rollerblading in a group around the main deck or playing games in the video arcade. In the evening, after the family dines together, the parents can go off to the casino, the teenagers can hang out in the juice-bar disco, and the little ones can stay back in the night nursery with a baby-sitter.

JAZZY JUGGLERS. The emphasis on pleasing passengers of all ages has led to the creation of a cruise line dedicated to family vacations. Miami-based American Family Cruises (AFC) is set to start operations this Christmas with a series of seven-day voyages in the Caribbean. Founder Bruce Nieremberg, in a joint venture with Costa Crociere of Genoa, Italy, spent a year developing the company, during which time he did extensive interviews with parents and children. From their suggestions, he has added more sports such as basketball and baseball (including a batting cage), a television studio where kids produce an hourly news show that is transmitted across the ship, and a computerized windsurfing simulator so children can learn on board before putting their skills to test in the water. Nieremberg has also hired a band of mimes, jugglers, and magicians to perform throughout the ship. And a flexible meal schedule has been set up: Food is served continuously from 6:30 a.m. to past midnight. Selections range from pizza and burgers for children to a candlelight sit-down dinner for the adults.

AFC cabin prices range from $895 per parent for an inside regular room to $2,095 for a suite. For children 2 to 17 years old, the price is $395 during the peak season, but they travel free during parts of January, June, September, and December. AFC also allows single parents to pay the double-occupancy rate for regular cabins. AFC will have week-long cruises that leave from Miami and stop in the Bahamas, Dominican Republic, and Key West starting in December. Cruises to the Western Caribbean (from Tampa) will begin in December, 1994, and to Alaska (from Vancouver, British Columbia) in May, 1995.

Many other cruise lines are making kids a big part of their business as well. Carnival Cruise Lines began supervised children's programs more than 10 years ago, and according to President Bob Dickinson, its ships carry more than half-a-million families annually. Carnival divides children into four age groups, supervised by trained counselors. Younger kids stage talent shows and put together a *Fun Club* newspaper. Older kids participate in lip-syncing sessions and limbo contests. Royal Caribbean has had some type of children's programming since the ... launched 25 years ... activities have been ... expanded, says spo... Lloyd Axelrod. Activi... planned for young... three different age... Like other big ship... Caribbean has arcad... rooms, and discos. ... Cruise Lines combine... day cruise with thi... at one of the Orla... theme parks for $... $5,536 for a family... Nieremberg helped ... this idea be... started AFC.

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Before you book, check the programs

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... to take advantage of ...r four-year-old, Marie, ... But then, I saw the ...: It has a children's ...n.

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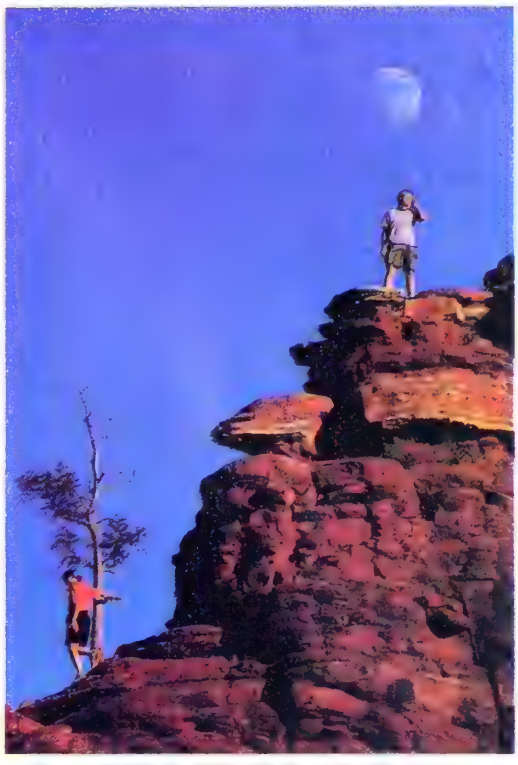
But a widening variety of resorts, even those that were previously adult-oriented, are going well past providing baby-sitters. Dorothy Jordon, who publishes *Family Travel Times*, is convinced that there is no longer a vacation you can imagine that your children can't have just as much fun on. How about a trekking trip in the Himalayas? You can hire a sherpa to carry your child for you.

For resorts, even when the guidebook says a family program is offered, check to see if it's seasonal. Many places, including the Enchantment, cut back when school is in session and may only offer children's programs on weekends and holiday weeks. During our spring visit, Marie's group had about a half-dozen kids and two counselors.

After trudging through cactus gardens, art galleries, and other adult attractions on the way to Sedona, Marie was thrilled to cut loose on a "kids' day" adventure, as we called it. The Enchantment's Nature Camp offered structured, well-supervised activities for a full day, half day, or evening, starting at nine in the morning and ending at nine at night.

Depending on the weather and the age and interests of the kids (the program is for children 4 to 12), there are indoor and outdoor activities, including nature walks, swimming, treasure hunts, movies, meals, and croquet. Marie still wears the T-shirt she painted during the art period. For us, it was a treat to take a bike ride in the canyon, indulge in a massage at the spa, or hike for more than 10 minutes at a pop without hearing, "Mommy, I have to go...." But it was also fun to hear Marie tell us about her adventures, sing us a new song, and know that she had a great day, too. Plus, the counselors were charming and savvy enough to inform us that Marie is remarkably coordinated for her age, thus ensuring a nice tip on top of the reasonable $29 all-day (or $19 half-day) charge.



GROWN-UP STUFF: AFTER HIKING, MOUNTAIN BIKING, AND TENNIS, YOU MAY WANT A MASSAGE

The Enchantment is also a fun place to spend time together: Marie loved bobbing in the many toasty-warm pools with us. And the concierge can arrange open-air jeep trips to dramatic sandstone canyons and the local Indian ruins.

This is a full-service resort: Fresh-squeezed orange juice and a *USA Today* are waiting on your doorstep each morning. (Marie thought that was magic.) Every room features, at minimum, a private deck overlooking the canyon, while suites also have fireplaces, two baths, and a kitchenette. Rates, depending on the season, run from about $145 per night for a simple room to $460 for a two-bedroom casita. We made our reservations late, so we couldn't book a room with a kitchenette, as we had hoped.

MEAL SNAGS. We agreed with some other parents that the Enchantment's food service is the only slight negative for a traveling family. While the food itself is quite good, the resort has only one dining room—to which most families are loath to haul rambunctious kids. Room service is a good, though pricey, option, or you can whip up your kids' favorite eats in the kitchenette. We at least like to have yogurt, fruit, milk, and juice available for Marie when we're traveling, but here, no kitchenette meant no refrigerator, either.

We've seen parents look forlorn and guilty leaving their kids in the care of a baby-sitter or nanny at a vacation spot, especially if the kids start to whine and complain. But it was easy to get Marie excited about a program that "only kids get to do." And the break from the demands of parenting 24 hours a day let us appreciate the time spent with her, post-R&R, even more. *Joan Hamilton*

Kids' plans for the day, half day, or evening

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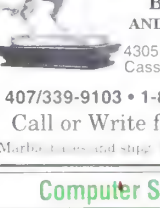

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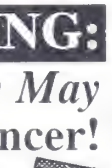

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Chairman, Barclays de Zoete Wedd Limited

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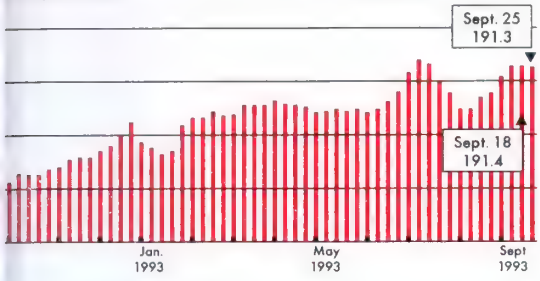
BusinessWeek
Beyond news. Intelligence.

sinessWeek Index

UCTION

n last week: −0.1%
n last year: 5.5%

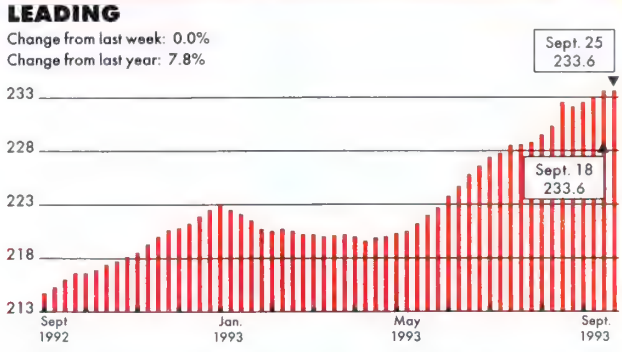
1967=100 (four-week moving average)



tion index was virtually unchanged in the week of Sept. 25, as the index o climb out of its mid-September hole. On a seasonally adjusted basis, autos, trucks, steel, paper, paperboard, and rail-freight traffic declined, ic power, crude-oil refining, and lumber production increased. Coal output nged from the previous week. Before calculation of the four-week moving e index increased slightly, to 190.5, from 190.3.

LEADING

Change from last week: 0.0%
Change from last year: 7.8%



The leading index was unchanged during the week ended Sept. 25, but drops in most of the latest week's indicators mean the index should start to decline. Lower stock prices, higher bond yields, increased business failures, and deteriorating growth in real estate loans and materials prices all suggest slower economic growth ahead. Growth in M2 was unchanged. Before calculation of the four-week moving average, the index was down sharply, to 232.1, from 234.4.

UCTION INDICATORS

	Latest week	Week ago	% Change year ago
) thous. of net tons	1,769	1,798#	4.3
'2) units	152,816	111,493r#	30.4
)/2) units	124,732	105,385r#	41.1
OWER (10/2) millions of kilowatt-hours	56,063	58,496#	1.7
REFINING (10/2) thous. of bbl./day	13,872	13,884r	0.5
) thous. of net tons	19,409#	19,405	5.1
ID (9/25) thous. of tons	796.3#	806.8r	−1.9
5) thous. of tons	782.0#	800.0r	−2.5
/25) millions of ft.	497.2#	482.6	−2.9
HT (9/25) billions of ton-miles	21.8#	22.1	2.3

nerican Iron & Steel Institute, *Ward's Automotive Reports*, Edison Electric Institute, roleum Institute, Energy Dept., American Paper Institute, WWPA[1], SFPA[2], Association Railroads

LEADING INDICATORS

	Latest week	Week ago	% Change year ago
STOCK PRICES (10/1) S&P 500	460.70	455.91	10.9
CORPORATE BOND YIELD, Aaa (10/1)	6.69%	6.79%	−15.6
INDUSTRIAL MATERIALS PRICES (10/1)	94.0	94.4	−4.4
BUSINESS FAILURES (9/24)	340	331	−9.3
REAL ESTATE LOANS (9/22) billions	$401.5	$403.8r	0.3
MONEY SUPPLY, M2 (9/20) billions	$3,508.7	$3,507.6r	1.8
INITIAL CLAIMS, UNEMPLOYMENT (9/18) thous.	340	324	−19.8

Sources: Standard & Poor's, Moody's, *Journal of Commerce* (index: 1980=100), Dun & Bradstreet (failures of large companies), Federal Reserve Board, Labor Dept. CIBCR seasonally adjusts data on business failures and real estate loans

GN EXCHANGE

	Latest week	Week ago	Year ago
'EN (10/6)	105	105	121
ARK (10/6)	1.63	1.61	1.48
UND (10/6)	1.52	1.51	1.69
ANC (10/6)	5.67	5.63	5.01
DOLLAR (10/6)	1.34	1.32	1.25
NC (10/6)	1.42	1.41	1.31
'ESO (10/6)[3]	3.115	3.118	3.105

ajor New York banks. Currencies expressed in units per U.S. dollar, except for British ssed in dollars

MONTHLY ECONOMIC INDICATORS

	Latest month	Month ago	% Change year ago
CONSTR. SPENDING (Aug.) annual rate, billions	$456.0	$461.3r	6.0
CONSUMER SPENDING (Aug.) billions	$4,419.5	$4,403.9r	7.0
PERSONAL INCOME (Aug.) annual rate, billions	$5,428.1	$5,357.8r	6.1
PURCHASING MANAGERS' INDEX (Sept.)	49.7%	49.3%	2.1

Sources: Census Bureau, Commerce Dept., National Association of Purchasing Management

S

	Latest week	Week ago	% Change year ago
5) $/troy oz.	356.250	353.200	1.7
IP (10/5) #1 heavy, $/ton	122.50	112.50	35.4
'S (10/5) index, 1967=100	211.8	211.6	6.9
0/2) ¢/lb.	86.7	87.0	−20.3
) (10/2) ¢/lb.	52.0	52.3	−9.2
/2) #2 hard, $/bu.	3.24	3.25	−11.7
0/2) strict low middling 1-1/16 in., ¢/lb.	56.19	56.03	14.0

ndon Wednesday final setting, Chicago market, Commodity Research Bureau, *Metals* is City market, Memphis market

MONETARY INDICATORS

	Latest week	Week ago	% Change year ago
MONEY SUPPLY, M1 (9/20)	$1,113.6	$1,103.9r	12.4
BANKS' BUSINESS LOANS (9/22)	270.7	271.2	−2.5
FREE RESERVES (9/29)	1,024	344r	116.0
NONFINANCIAL COMMERCIAL PAPER (9/22)	160.6	162.8	11.8

Sources: Federal Reserve Board (in billions, except for free reserves, which are expressed for a two-week period in millions)

MONEY MARKET RATES

	Latest week	Week ago	Year ago
FEDERAL FUNDS (10/5)	3.04%	3.08%	3.20%
PRIME (10/6)	6.00	6.00	6.00
COMMERCIAL PAPER 3-MONTH (10/5)	3.26	3.18	3.16
CERTIFICATES OF DEPOSIT 3-MONTH (10/6)	3.23	3.09	3.09
EURODOLLAR 3-MONTH (10/1)	3.14	3.06	3.10

Sources: Federal Reserve Board, First Boston

n the production indicators are seasonally adjusted in computing the BW index (chart); other components (estimated and not listed) include machinery and defense equipment. Wood Products Assn. 2=Southern Forest Products Assn. 3=Free market value NA=Not available r=revised NM=Not meaningful

Index to Companies

This index gives the starting page for a story or feature with a significant reference to a company. Most subsidiaries are indexed under their own names. Companies listed only in tables are not included.

A

Advanced Micro Devices 42
Aetna 68
Alex. Brown 62
American Express 84
American Family Cruises 96E4
American International Technologies 76
American Personal Communications 45
American Superconductor 67
Apple Computer 10, 72
Arthur D. Little 60
AT&T 30, 45, 72
Atari 50
Ataka Exploration 30

B

Bally Manufacturing 80
Bank of America 84
Baring Securities 47
Baxter International 90
Bertelsmann 32
BIS Strategic Decisions 72
Blockbuster Entertainment 32, 40
British Airways 42

C

Caremark International 90
Carl Karcher Enterprises 62
Carnival Cruise Lines 96E4
Castle Harlan 84
Chase Manhattan 22
Chemical 42, 84
Chicago Bulls 38
CIGNA 36
Circus Circus 80
Citibank 84
Citizen Watch 72
Columbia Healthcare 36
Comcast 32
Commercial Credit 84
Conoco 22
Costa Crociere 96E4
CostCo Wholesale 60

D

Daiwa Securities 22
Delta Air Lines 94
Digital Equipment 72, 91
Dillingham Construction 60
DuPont 22

E

E.F. Hutton 84
Ecosoft 67
Encore 32
Erecor 67
Evans Economics 18

F

Families Welcome 94
First of Michigan 84
Ford 42, 72
Fred Meyer 60
Freeman Spogli 62
Fund American Enterprises Holdings 84
Furman Selz 32

G

Galen Health Care 36
GB Foods 62
GE 84
General Dynamics 67, 76
Goldman, Sachs 45, 72
Green Burrito 62

H

Harman International 16
HCA 36
HealthTrust 36
Hewlett-Packard 46, 72
Hilton 80
Holland American Line 96E4
Hughes Aircraft 76
Humana 36
Hutchison Whampoa 47

I

IBM 16, 46, 72
Intel 30, 42
ISI Group 18
Island Hideways 96E2
Israel Tambour 67
ITT Sheraton Hospital Franchise 80

J

Jones Intercable 32
Journeys International 94

K

K-tel International 90
KeyCorp 42
Kidder Peabody 84
Kohlberg Kravis Roberts 60

L

Landry & Kling 96E4
Liberty Media 32
Lockheed 76
Los Angles Cruise Line 96E4

M

Margaretten 84
Mark I. Wolk & Associates 10
Marvin & Palmer 47
MasPar Computer 72
McDonald's 22, 38
McDonnell Douglas 76
McGraw-Hill 1, 20
MCI 45
Medco Containment Services 90
Merck 90
Merrill Lynch 18, 84, 90
Metropolitan Life 68, 84
MGM Grand 80
Microsoft 10
Mirage Resorts 80
MMS International 20
Morgan Stanley 45, 47, 84
MTV 32

N

National Medical Enterprises 68
NBA 38
Network Equipment Technologies 72
Nike 38
Nintendo 50
Northrop 76
Novell 10
Nynex 32

P

PaineWebber 84, 90
Paramount Communications 32, 84
Patten 90
PepsiCo 22
Petrobras 50
Phoenix Suns 38
Piper Jaffray 60
Price 60
Primerica 84
Princess 96E4
Prudential 84

Q

Quaker Oats 38
QVC Network 32

R

Reliance Financial Services 84
RJR Nabisco
Royal Caribbean Lines 96E4

S

Safety-Kleen
Safeway 60
Salomon Brothers
San Francisco
Shearson Lehman Brothers 84
Showtime Networks
Siemens 46
Silicon Graphics
Smith Barney
Society 42
Sony 72
SoundView Financial
Southern California Edison 67
Southwest Airlines
Spiegel 32
Spring Industries
Stirling Design
Stop & Shop 6
Sun Microsystems

T

Tele-Communications
Telebras 50
Time Warner 3
Travelers 68, 8

U

Union Texas Petroleum
United Airlines
United Gaming
USAir 42
U S West 72

V

VHR Worldwide
Viacom 32, 84
Villas International
Virgin Atlantic

W

Walt Disney 32
Wellcome Trust
Wharf Holdings
Whittaker 34
Wilson Sporting
Winco 96E2
WMX Technologies

X

Xerox 91

Z

Zenith Data 10

estment Figures of the Week

RY

ter drew to a close
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in the U.S. capital
est rates, both short-
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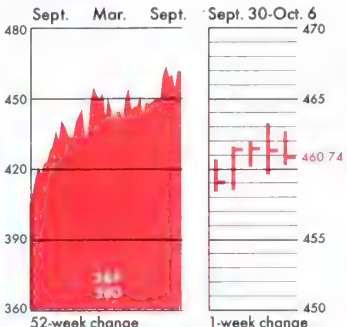
STOCKS

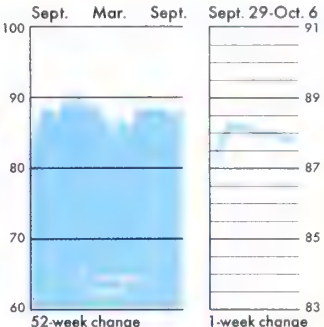


52-week change +14.0%
1-week change +0.1%

BONDS

52-week change +13.7%
1-week change +0.1%

THE DOLLAR



52-week change +6.0%
1-week change +0.3%

T ANALYSIS

	Latest	% change Week	% change 52-week
IDUSTRIALS	3599.0	0.9	14.2
PANIES (S&P MidCap Index)	175.0	−0.4	24.0
NIES (Russell 2000)	254.3	1.1	35.3
S (Russell 3000)	267.4	0.0	17.2

OCKS	Latest	% change (local currency) Week	52-week
NCIAL TIMES 100)	3100.8	2.3	23.2
INDEX)	20,500.3	2.1	19.8
COMPOSITE)	4055.5	1.8	26.1

FUNDAMENTALS	Latest	Week ago	Year ago
90-DAY TREASURY BILL YIELD	3.04%	2.99%	2.87%
30-YEAR TREASURY BOND YIELD	6.01%	6.00%	7.49%
S&P 500 DIVIDEND YIELD	2.74%	2.71%	3.10%
S&P 500 PRICE/EARNINGS RATIO	21.7	23.8	20.8

TECHNICAL INDICATORS	Latest	Week ago	Reading
S&P 500 26-week moving average	450.2	449.5	Positive
Stocks above 26-week moving average	63.4%	60.8%	Neutral
Speculative sentiment: Put/call ratio	0.41	0.41	Positive
Insider sentiment: Vickers sell/buy ratio	2.73	2.87	Negative

RY GROUPS

BRIDGE INFORMATION SYSTEMS INC.

LEADERS	% change 4-week	% change 52-week	Strongest stock in group	% change 4-week	% change 52-week	Price
D MOTELS	13.1	111.6	PROMUS	15.8	320.0	78 3/4
NT STORES	10.1	29.9	J.C. PENNEY	14.9	37.3	48 1/8
APPAREL RETAILERS	10.0	10.3	GAP	14.7	2.9	31 1/4
	8.1	63.0	NUCOR	19.2	112.0	53 1/8
TATION SERVICES	8.0	63.3	PITTSTON SERVICES GROUP	11.2	45.5	22 3/8
LAGGARDS	% change 4-week	% change 52-week	Weakest stock in group	% change 4-week	% change 52-week	Price
	−10.6	−7.9	ASARCO	−13.9	−25.3	17
	−9.1	2.7	REYNOLDS METALS	−11.2	−14.1	42 3/4
CATIONS EQUIPMENT	−8.1	17.4	DSC COMMUNICATIONS	−10.7	380.0	59 3/8
E BROKERS	−8.0	−8.8	ALEXANDER & ALEXANDER SVCS.	−15.9	−21.5	20 1/2
NTATION	−7.2	24.0	PERKIN-ELMER	−12.5	−5.3	28 3/4

L FUNDS

MORNINGSTAR INC.

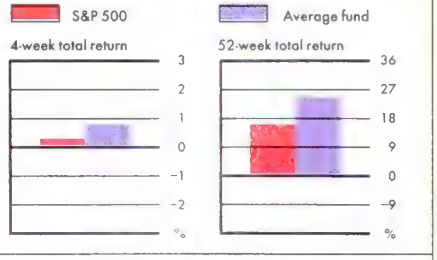
al return	%
OCEANOGRAPHIC TECHNOLOGY	11.4
ALUE	8.8
AMERICAN INDUSTRY	7.6

return	%
STRATEGIC INVESTMENTS	133.0
WTH	105.6
NEY SHEARSON SPECIAL EQUITIES B	76.0

LAGGARDS

Four-week total return	%
EXCEL MIDAS GOLD SHARES	−11.9
UNITED SERVICES WORLD GOLD	−9.8
INVESCO STRATEGIC GOLD	−9.7

52-week total return	%
PILGRIM CORPORATE UTILITIES	−11.2
MONITREND GOLD	−11.2
YACKTMAN	−8.1



VE PORTFOLIOS

DRI/McGRAW-HILL

unts
ue present
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folio

indicate
l returns

Foreign stocks
$14,056
+1.64%

Treasury bonds
$12,299
−0.72%

U.S. stocks
$11,650
−0.07%

Money market fund
$10,222
+0.04%

Gold
$10,086
−0.55%

page are as of market close Wednesday, Oct. 6, 1993, unless otherwise indicated. include S&P 500 companies only; performance and share prices are as of market close

Oct. 5. Mutual fund returns are as of Oct. 1. Relative portfolios are valued as of Oct. 5. A more detailed explanation of this page is available on request.

RUSSIA IS READY FOR MARKET REFORM

While the burning Russian parliament building provided a vivid image of the recent Moscow revolt, it was the nearby Central Bank building that, in essence, the fighting was really all about. Control over the direction of the Russian economy—market or centralized, private or state-owned, open or closed—was at the very heart of the battle between the forces of President Boris Yeltsin and the rebellious communists and xenophobic fascists behind Aleksandr V. Rutskoi and Ruslan I. Khasbulatov. Yeltsin's victory over his political opponents provides a critical opportunity to remake the Russian economy.

Russia is the last major link in a single, global market economy—an economic phenomenon the world has never seen before. With China, Eastern Europe, and Latin America already in the market loop, the transformation of Russia promises to set off an exponential explosion of international economic growth in the years ahead.

But first, Russia must take three decisive steps if market forces are to be harnessed:

- Faith in the ruble must be restored. The central bank must slow down the printing presses and tighten the money supply to combat hyperinflation, now running at 30% a month. The bank's recent attempt to simply ban the U. S. dollar, used widely throughout the economy, will be a futile gesture until the ruble is stabilized.
- The laws and regulations regarding foreign investment, ownership, and repatriation must be modernized and brought up to international standards. With the xenophobes in retreat, fear of Western "imperialism" should take a back seat to the desire to attract capital and technology.
- Privatization of both farms and the agricultural distribution system should be quickened to get produce to the cities.

Much has been made of the need to privatize the huge state-owned manufacturing system as well, but it just may be that this is less of a priority right now. Already, one in five Russian workers is employed in the private sector. While huge state subsidies go to the large, inefficient factories, the same funds would have to be spent on welfare should these factories lay off millions of workers. China is showing the ex-communist world that it is possible to generate a parallel market economy. By encouraging local entrepreneurs, inviting in foreign investment, and driving the economy through exports, Russia could do the same while preserving its social and political stability.

INDUSTRIAL POLICY, CLINTON STYLE

It is easy to be cynical about industrial policy. The very term connotes wasteful government spending on misguided industrial projects. Remember the $20 billion synfuels catastrophe of the 1970s?

Yet 20 years later, the Beltway is abuzz once a[gain] talk of industrial policy. This time, however, th[e] public megabucks chasing bureaucrats' commercial [dreams] being replaced by a chorus of different bureaucrats [who] their new programs are focused, frugal, and sensible. [The] new industrial policy buttons of the Clinton Admini[stration] are "partnership," "targeted public investment," and [high]er effects."

Sounds good. Take the latest Detroit-Washington [high] partnership, which is part of the Clinton Administr[ation's] effort to promote high tech. The auto deal will tra[nsfer] fense-related technology to the Big Three. The g[oal] triple the mileage of cars some ten years from [now]. Commerce Dept. also has a pilot program to spread [manu]turing technology to small companies. Taxpayers' c[ost] much.

In trade, Washington is relaxing old cold war tech[nology] controls to promote computer exports, pushing for f[ree] through deals on the General Agreement on Tariffs [and] the North American Free Trade Agreement, and [open] access in Japan. It is also shifting existing funding [to] help exporters, and tying some foreign aid to the pu[rchase] U. S. products. Good ideas, all.

The third leg of Clinton's emerging industrial [policy] cludes human capital. Here the Administration pla[ns] train millions of workers displaced by the global [economy] and, of course, cut health-care costs for the nati[on] could boost U.S. global competitiveness significantl[y]. right.

But the Administration has yet to prove that, d[espite] good intentions, its new industrial policy will turn [out] anything better than the lemon socialism of the p[ast]. zeitgeist appears to be shifting in this country on th[e] activist government. Both the middle class and C[orporate] America are more open to Washington helping t[hem] through the economically turbulent 1990s—but only [if] do it efficiently and effectively.

MUNI BONDS: A WELCOME MOVE

Hats off to the Public Securities Assn., the tra[de] for municipal bond dealers, for its new decisi[on] its members to stop making political contrib[utions] hopes of winning business. Christopher A. Taylor, [chair] of the Municipal Securities Rulemaking Board, whi[ch] lates municipal dealers, is also to be congratulated [for] porting a total ban.

On Sept. 6, BUSINESS WEEK ran a cover story [on] "The trouble with munis" that outlined the pricing [abuses], meager disclosure, and weak regulation in the $1.[2] municipal bond market. It warned of the danger [of] paign contributions by bond underwriters to state [and] politicians who select them.

The PSA ban is long overdue, but nothing shou[ld] state and federal regulators from continuing to dig [out] ruption in the muni market. The unsavory tie betwe[en] dealers and politicians must be cut.

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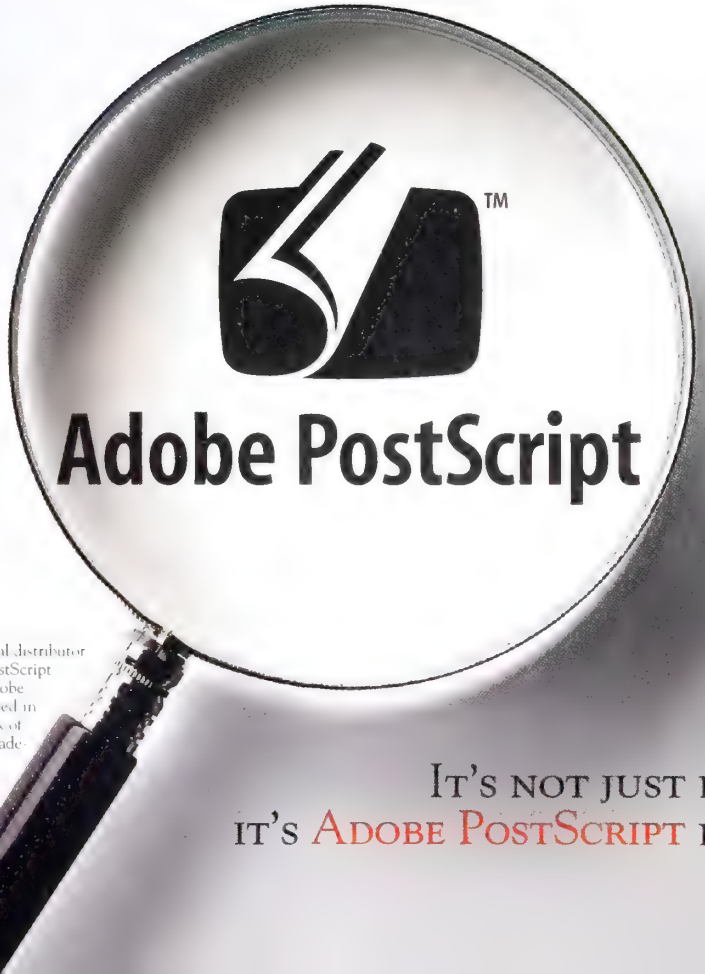

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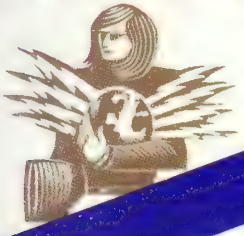
BusinessWeek

GRAW-HILL PUBLICATION

How entrepreneurs are reshaping the economy



ENTERPRISE

and what big companies can learn.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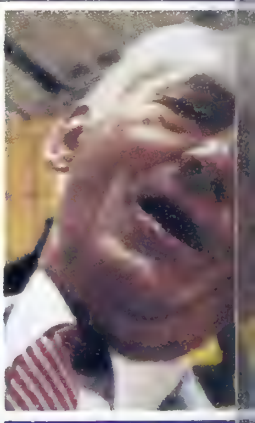
PAGE 102

PAGE 248

PAGE 190

PAGE 168



PAGE 66

PAGE 22

ENTERPRISE

INTRODUCTION
PAGE 10
From Hong Kong to Brazil to Germany, the "economies of entrepreneurship" are changing the face of business

THE NEW ECONOMIES OF SCALE
PAGE 22
These days, a company doesn't have to be big to be a rousing success. In fact, it's almost the reverse

SMALL IS POWERFUL
PAGE 66
The drive and agility of an entrepreneur can turn the world upside down, whether by overhauling an industry or building a new one

THE ENTREPRENEURS
PAGE 102
They're different from you and me—or are they? A group portrait of entrepreneurs reveals different types and common traits

THE HEAVENLY VALLEY
PAGE 168
Sure, Silicon Valley has problems—smog, sprawl, and costly labor among them. But it's still the place to pursue a dream

WHAT BIG COMPANIES CAN LEARN
PAGE 190
More and more behemoths are finding that sluggishness is just a state of mind, and they don't have to live with it anymore

SUMMING UP
PAGE 248
Has your company unleashed the spirit of enterprise? Or is it too bureaucratic? Here's how to tell

SCOREBOARD
PAGE 259
Today's up-and-comers become tomorrow's heavyweights. Here is BUSINESS WEEK's ranking of 250 companies on the move

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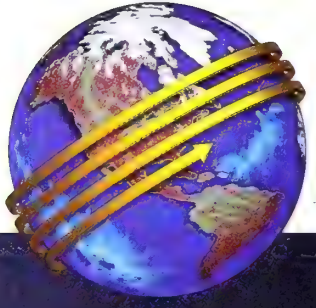

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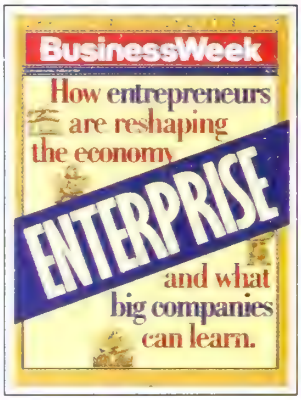
Editor's Memo

Every year, BUSINESS WEEK selects a subject of transcendent importance and devotes an entire issue to it. We offer it as a bonus to our subscribers, a supplement to our weekly edition.

Two years ago, for instance, we focussed on quality, a subject crucial to America's competitiveness in the world economy. The issue won a National Magazine Award and was the best-selling single-copy issue in our history. An updated book version will soon be published by McGraw-Hill, our parent company. And last year we issued "Reinventing America," a comprehensive examination of the economic, political, and social ills facing the U.S. It, too, won numerous awards, including The John Hancock prize for distinguished business journalism.



In contemplating a topic for this year's bonus issue, we realized that the upheavals in Corporate America were not isolated events. Companies as disparate as IBM, General Motors, Westinghouse, and American Express—long symbols of American prowess—were encountering problems that, in some cases, threatened their very existence. Bigness, once considered essential for success, was becoming a liability for many companies. They just didn't seem capable of moving fast enough to deal with a rapidly evolving world economy. Nor could they cope with massive technological shifts. More and more, it seemed that smaller, nimbler competitors were outclassing the titans—in everything from retailing to high tech.

The successes posed some questions. Yes, the entrepreneurial spirit was clearly more evident in small business than in Corporate America. But why? And why were smaller companies, lacking resources and economies of scale, able to do wh bigger companies couldn't?

Yet at the same time, there we obvious exceptions. Somehow, G AT&T, Motorola, and other gian were able to transform themselves, to take on the same sort of e trepreneurial energy that characte ized a Wal-Mart, an Intel, a Microso or even a start-up. What was it th enabled these giants to change whe others couldn't?

Intriguing questions, all. We kne of course, that there were no ea generalizations, how-to-do-it formula So we decided the questions would for the basis of an i depth examination the quality we call e terprise. I asked m colleague, Assista Managing Editor Da Wallace, to ponder th subject.

Dave was unique qualified. A 13-ye veteran of BUSINE WEEK, he had cover many aspects of business—from f nance and management to technol gy and government. With help fro key senior staffers, Dave drew up detailed outline, then mobilized t magazine's reporters and edito around the world. More than 1 staffers contributed to the project.

To me, this bonus issue is itself sterling example of enterprise in a tion—the drive, energy and imagin tion of a dedicated group combine with the resources that a big, inte national magazine can summon to t task. I'm proud of the job they d and I trust that their efforts will ma rewarding reading for all of you.

Stephen B. Shepard

Editor-in-chi

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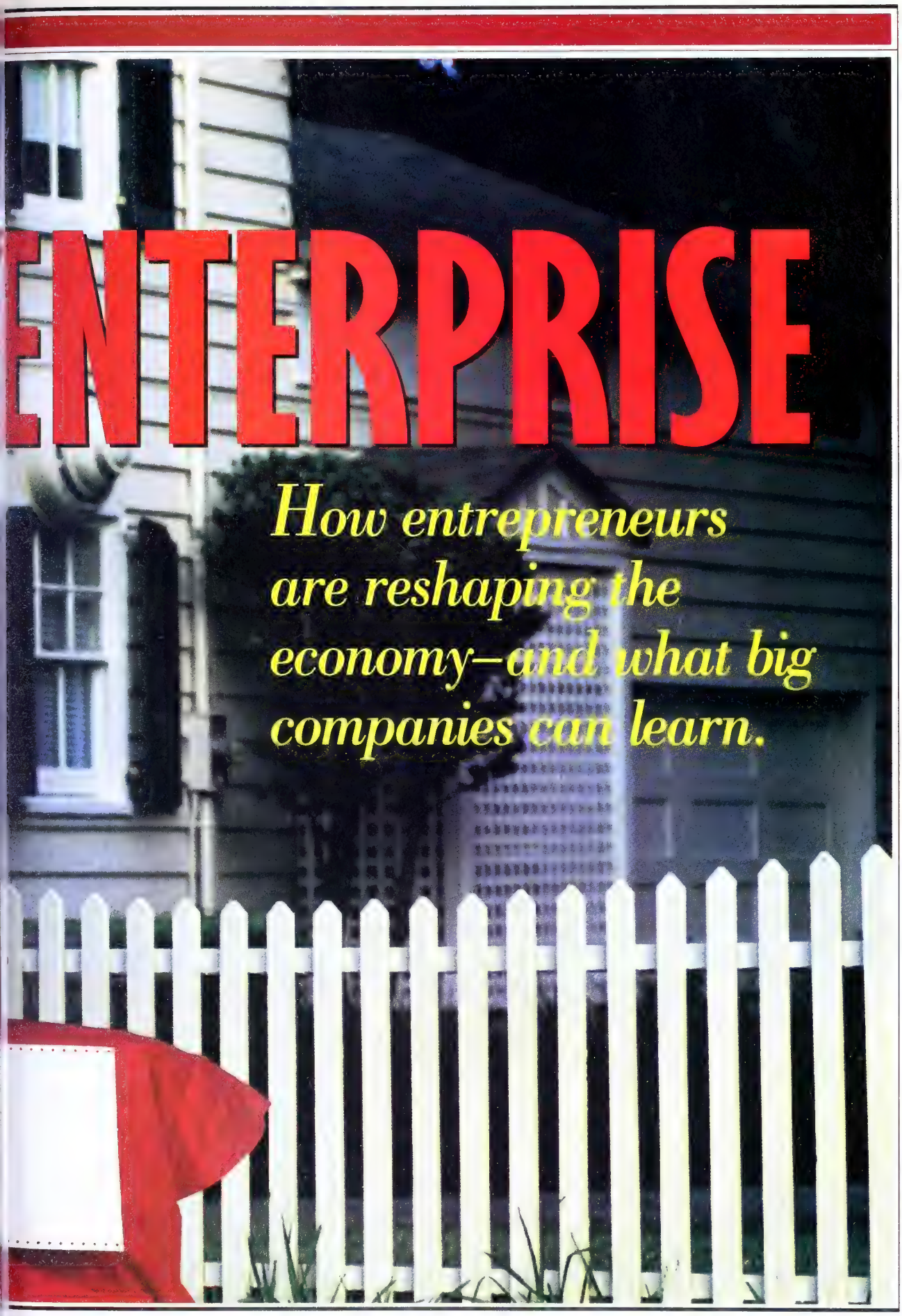
ENTERPRISE
How entrepreneurs are reshaping the economy—and what big companies can learn.

What astonishes me in the United States is not so much the marvelous grandeur of some undertakings as the innumerable multitude of small ones.

—Alexis de Tocqueville, 1835

BY JOHN A. BYRNE

What the peripatetic Frenchman noticed nearly 160 years ago—before the advent of Apple Computer, Genentech, Microsoft, or Nucor—is just as true today. The only difference is that the spirit of enterprise is more than ever a global phenomenon with few bounds.

From the rows of kiosks selling goods on nearly every block in Moscow to the cramped factories in Taiwan, Russian *biznezmen* and Chinese *changshang* are reshaping their nations' economies in much the same way as those ingenious old Yankees created the basis for America's business culture just after independence was won.

Any modern-day de Tocqueville would notice something else about this global shift: Changes in the rules of the business game are putting a premium on the entrepreneurial qualities of small companies. Today's successful enterprises are nimble, innovative, close to the customer, and quick to market. They're not bureaucratic, centrally controlled institutions that are slow to change. It adds up to a new management catechism with many of the hallmarks of small business.

"Size is no longer the trump card it once was in today's brutally competitive world"

In recent years, the giants of industry have suffered a great comeuppance—as much from the little guys as from fierce global competition. IBM continues to reel from the assaults of erstwhile upstarts such as Microsoft, Dell Computer, and Compaq Computer. Big Steel was devastated by such minimills as Nucor, Chaparral Steel, and Worthington Industries. Onetime mavericks Wal-Mart Stores and The Limited taught Sears, Roebuck a big lesson. Southwest Airlines has profitably flown through turbulence that has caused the big airline carriers to rack up $10 billion in losses over the past three years. And a brash pack of startups with such names as Amgen Inc. and Centocor Inc. has put the U. S. ahead in biotechnology—not Bristol-Myers Squibb, Merck, or Johnson & Johnson.

Sure, some industries, such as auto making and petr chemicals, still require size and scale. But the swift pa of technological change and the fragmentation of marke are eroding the traditional economies of scale. Indeed, son management thinkers now speak of the "diseconomies scale," the unresponsiveness, sluggishness, and high cos that come with bureaucracy. While the behemoths try adjust to new competitive realities, younger and small companies have emerged as the agents of change in eco omies around the world.

Although there is some disagreement over the exact nur bers, most observers agree that entrepreneurs are genera ing more jobs and more innovation than the giants. In th U. S., small and midsize companies created all of the 5 million new jobs from 1987 to 1992—at a time when cor panies with 500 or more employees recorded a net loss 2.3 million jobs, according to Cognetics Inc., a Cambridg (Mass.) research firm. This year, small business is expecte to generate an additional 1.7 million jobs, while comp nies with 25,000 or more employees will shed 300,000 pe ple. And despite their more limited resources, one recen ly published study shows that small companies also produc 2.4 times as many innovations as large outfits.

As John F. Welch Jr., chairman of General Electric Co puts it: "Size is no longer the trump card once was in today's brutally competitiv world marketplace—a marketplace that unimpressed with logos and sales numbe but demands, instead, value and perfo mance." His goal in managing $60 billio plus GE: To "get that small-company soul- and small-company speed—inside o big-company body."

What Welch and so many other chieftai of big enterprise are trying to do is tap wh might be called the economies of entrepre eurship. Xerox Corp. deploys a venture fun to bankroll internally generated ideas th previously were discarded or overlooke The chief executive of MCI Communications Corp.—no a $10 billion company—appears on a closed-circuit TV ne work to give impassioned talks on the merits of entrepre eurship. PepsiCo Inc., hoping to get all its employees ac ing like small-business owners, dishes out stock options janitors and secretaries.

And U. S. companies aren't the only ones trying tap the wellsprings of entrepreneurship. Philips Electronic the $31 billion European giant, for example, is allowin employees to pitch new ideas to a committee of to executives responsible for funding and approval, much an entrepreneur would bring an idea to a venture capitalis Why? Philips found that lower-level managers, worrie about budgets or other projects, often blocked new idea "We're bringing top decision-makers to bear on new ide

CHAPTER ILLUSTRATIONS BY CHRIS GALL

SETH ABEN

so something terrific doesn't die on the vine," says Frank P. Carrubba, a Philips executive vice-president.

The debate over whether smaller companies are more productive than bigger ones is itself causing a sea change in attitudes and management thinking. These days, it seems, most big companies appear intent on acting small. Ironically, of course, most small companies continue to spend a lot of their time trying to become big, especially because bigness still symbolizes success.

As long as corporations around the world continue to downsize, however, the entrepreneurship movement is likely to accelerate. Indeed, the trend away from vertical integration is leading more big companies to subcontract and outsource more and more products and services from smaller companies. And the dynamism of small business is being discovered across the globe as nations reject central planning for capitalist models. "The U. S. is now focusing more on the importance of entrepreneurship and away from its reliance on large corporations and government for economic development," says James L. Freeley, a management professor and board member of the Foundation for Economic Literacy, an educational effort to help Russians understand the benefits of capitalism. "Russia's only hope is entrepreneurship and small business. Not only did they never have large private corporations but the state-operated entities and military complexes are being rapidly phased out."

"It's extremely satisfying to build something from nothing. Risk puts the edge on it"

While Russia is only now rediscovering the virtues of small business, the entrepreneur has had a largely unbroken run as a celebrated figure in American culture. The coopers, farmers, silversmiths, and other artisans of Colonial times were the forebears of the scrappy startups in today's economy. "From the time of Thomas Jefferson to the present, many Americans have seen the owners of small businesses as epitomizing all that is best about the American way of life," says Mansel G. Blackford, a business historian at Ohio State University.

Until the late 19th century, small companies were the norm. But the entrepreneur was much diminished during the subsequent rapid industrialization of America. Big Business rose to ascendancy in fields where economies of scale were critical to success: railroads, steel, autos, chemicals, and telephones.

In this century, the postwar economy favored Big Business for more than four decades. The share of business receipts going to small companies—those with fewer than 500 employees or less than $5 million in sales—fell from 52% to just 29% of the total for all American companies between 1958 and 1979.

But these boom years also led to complacency, flab, and decline for many of the giants of industry. "Big businesses still keep people in narrow organizational boxes, doing work that does not matter, pushing paper that no one wants, and allowing little room for creativity and fun," says Craig J. Cantoni, author of *Corporate Dandelions* and president of Capstone Consulting Group in Scottsdale, Ariz. That prevailing view of the lumbering giants of business helped the entrepreneur make a comeback at the start of the 1980s. Apple Computer Inc.'s Steve Jobs and People Express Airlines Inc.'s Donald Burr became cult heroes to new generations.

Now, fast-changing competition, advances in technology, and changes in the marketplace are combining to make the environment ever more difficult for large corporations. The reason: These changes are erasing many of the costly entry barriers that protected Big Business from pesky startups. "The capital advantage big companies sometimes have is being eliminated," says Ted Stolberg, a venture capitalist who invests in small companies. "The technology is helping smaller companies beat up the big guys."

A decade ago, for example, it took a $20 million to $30 million investment to gain the precision and efficiency to make mechanical parts that today can be made on a flexible machining center that sells for $500,000 to $1.5 million. Computing power that 10 years ago cost hundreds of thousands of dollars and was available only to large, resource-rich corporations can now be put on a desktop for a few thousand bucks. Overnight delivery services such as Federal

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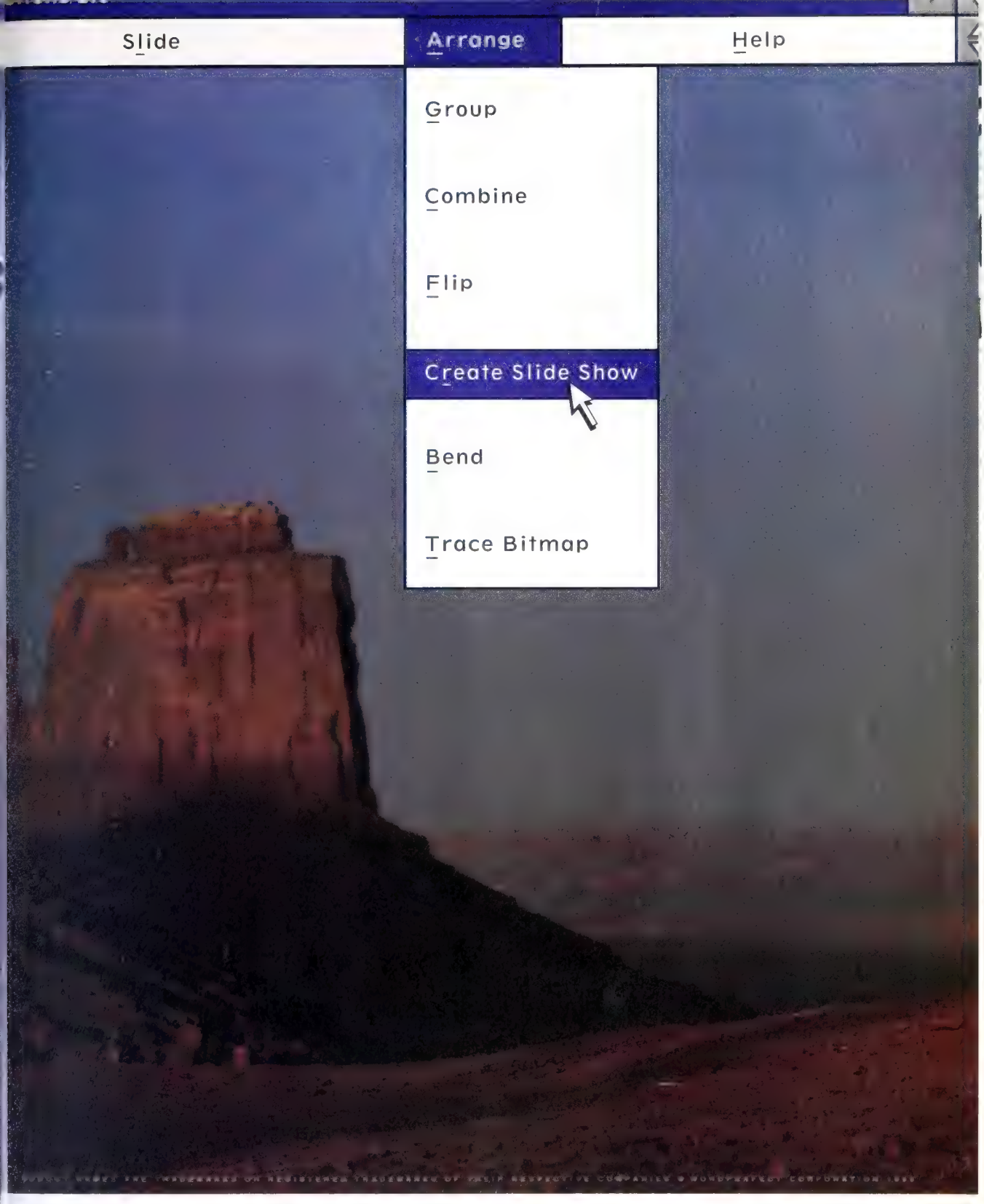

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Express Corp. and United Parcel Service Inc. have mushroomed, all but eliminating the need for costly warehouse and distribution centers. And the willingness of more companies to join with others in strategic alliances to produce and sell products makes it easier than ever to compete in nearly any market.

Nor do larger research and development budgets and expanded staffs guarantee that big companies can bring new products to market faster than smaller ones. Why? "The key people in small businesses are closer to the customer, so they're more in tune with what's happening in the marketplace," says Nancy C. Pechloff, managing director of Arthur Andersen & Co.'s Enterprise Group, a consulting practice for small businesses. "In large companies, a lot of lower-level employees may be coming up with the ideas, but they often don't have the power to make them happen."

No less important, creative people tend to gravitate to entrepreneurial environments that offer more independence and flexibility. "The raw material that goes into small business is more innovative," Pechloff believes. "The process of big companies turns creative people off."

Of course, the vast majority of small businesses around the world lead a modest, often precarious existence. Many of them go belly-up within a couple of years. Precious few of them propel their leaders to the forefront. But difficult as it can be, there is something compelling about life as the founder of a business. "Entrepreneurs are obsessed with creating value," says Thomas D. Weldon, chief executive officer of Novoste Corp., a medical products company in Norcross, Ga. "It's extremely satisfying to build something from nothing. Risk puts the edge on it. If there isn't the possibility of failure, you don't jump over tall buildings in a single bound."

Once they cut their ties to large corporations, few entrepreneurs look back. Typical of them is Ken Sharma, who co-founded Intellection Inc., a Dallas-based software concern, in 1989. He had worked for Texas Instruments Inc. for 15 years, rising to become manager of information systems and services. "I was a company man," Sharma says. "I learned to claw my way up. But I realized that the power given to me by others was no power at all. What the small company gives me is the ability to do something meaningful and to get the rewards from it quickly."

That infectious sense of independence is critical to the entrepreneurial spirit. And it's a major reason the spirit of enterprise is increasingly celebrated around the globe, whether in Hong Kong, where free-wheeling entrepreneurship is moving across the border into China's Guangdong and Fujian provinces, or in Germany, where the country's midsize companies—the so-called *Mittelstand*—are a dynamic engine of growth.

These days, entrepreneurs are celebrated around the globe, from China to Germany to Brazil

Or consider Brazil, where Ricardo Semler, a thirtysomething executive has become the Lee Iacocca of his native country. Semler took over his family's troubled manufacturing company—a rather unglamorous business producing pumps, mixers, and valves—and increased sales more than sixfold, to nearly $30 million, in the past decade. Revenue per employee jumped from $10,800 to $114,000 in the same period.

The story of Semler's efforts to create a model workplace—where employees set their own salaries and have unlimited access to the company's financial records—became the best selling nonfiction book in Latin American history. "Most companies are still reluctant to bring real democracy into the workplace," Semler contends. "People say they want participative management, but no one wants to delegate the important decisions."

That's a lesson many larger companies, seeking in Jack Welch's words to infuse a "big-company body" with a "small-company soul," are trying hard to learn. They're flattening hierarchies, delegating authority, altering compensation schemes, and empowering workers—all in the hopes of gaining the powerful economies of entrepreneurship. What de Tocqueville would surely notice today is not only the multitude of small enterprising companies but how they—and the spirit that infuses them—are reshaping economies and markets around the world.

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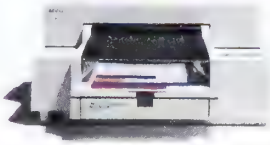

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24 TECHNOLOGY
START WITH SOME HIGH-TECH MAGIC...
Call it the technology of small. High-tech breakthroughs, such as powerful PCs, networks, and data bases, are letting little companies act like big ones—and vice versa

34 MANAGEMENT
BELT-TIGHTENING THE SMART WAY
After savage management cutbacks, many large companies are learning to be more productive with less. The key lesson: Focus on what's best for customers, not managers

42 MARKETING
HOW TO GET CLOSER TO YOUR CUSTOMERS
A huge budget often isn't necessary for effective marketing—but agility and the personal touch are. Niche players using data-base technology are really getting through

48 MANUFACTURING
THE RESPONSIVE FACTORY
Short production runs, quick changeovers, and lower tolerance for errors are the hallmarks of the state-of-the-art factory. Streamlined, flexible plants are as important as what a company makes

56 ESSAY
A WELLSPRING OF INNOVATION
From 18th century textile towns to today's worker-empowered auto plants, the factory has evolved relentlessly, transforming the quality of life in the process

F SCALE

These days, a company doesn't have to be big to be a rousing success

START WITH SOME HIGH-TECH MAGIC . . .

Used wisely, technology can make companies fast and flexible

BY PETER COY

It's early August on Canada's Cape Breton Island. Bald eagles wheel overhead as Terrence B. Magrath and Katherine Busboom Magrath sail their yawl along the rocky shores of the island's Bras d'Or Lake. The isolation is magnificent. But take a closer look. What's that brightly colored screen? It's connected to a 486-class personal computer below deck. The Magraths are using it to plot a new course—not for the yawl, but for the $500 million in investments they manage.

Wall Street is just a keystroke away. When the Magraths' calculations are complete, they're sent on radio waves to a cellular-phone antenna on the island. In a matter of seconds, they reach the couple's home office in Marblehead, Mass., where associates place orders with traders on the New York Stock Exchange and elsewhere. Over four days, in between spells of eagle-watching, the pair overhaul the holdings managed by their firm, ValueQuest Ltd., whose big-name clients range from 3M to the California Public Employee Retirement System.

A few years ago, a 12-person firm like ValueQuest couldn't have taken on such giants of money management as Fidelity and Putnam—from a boat, no less. What keeps it in the game is what might be called the technology of small. It includes PCs, cellular phones, and Lotus Development Corp.'s Notes—software that organizes the flow of work. In the 1970s, at Terry Magrath's last employer, it required 20 people to manage back-office bookkeeping. Today, he says, "we do it with 1½ people, and we do it better."

If technology is letting small com-

THE TECHNOLOGY OF SMALL

	DESKTOP COMPUTERS	NETWORKS AND COMMUNICATION
SMALL	Cheaper machines and advanced software let small companies do jobs such as computer-aided design that used to require specialists.	Intercompany networks help specialists in niche concerns find out their skills to form partnerships with each other or with larger companies.
BIG	Personal computers can give big-company drones the power to become decision-makers by setting them free from the corporate computing center.	By making it easier to share information and insights, networks break down the walls separating companies. Even more widely dispersed workers can form problem-solving teams.

:s act big, it's doing something else as :ll: It lets big companies act small—be quick and flexible, and to know :ir customers as intimately as corner :rchants know theirs.

.ook at what this has done for Con-idated Rail Corp. Until recently, the stern freight line was a Gulliver be-; bedevilled by trucks. Conrail was d down by rigid union work rules, rdated regulations, and a 1960s sys-n for handling documents. Conduc-s would sit in the caboose thumbing ough papers, trying to tell whether :ir train was running with the right s. Moreover, because trains didn't ve until they had a full complement :ars, delivery times were unreliable—much so that some customers em-yed people to figure out where the road had their cargo.

Jow, the paper "waybills" for each have been replaced by electronic ssages, improving reliability and ed. On top of that, Conrail keeps to :hedule instead of waiting until it has ıll string of cars. The cost of doing t now and then is offset by savings n increased predictability: Conrail s fewer away-from-home penalties :rews, for example. To be more re-nsive to its customers, meanwhile, railroad has divided itself into four works for different kinds of cargo, n cars to commodities. Says Ralph von dem Hagen, vice-president for customer services: "It's a big business, but we're sort of operating like a small one."

Some small business—with 12,400 route miles in 13 states and Canada. The point, of course, is that technology is transformative. It can amplify the powers of small companies or help big companies bust their bureaucracies. By sharing computer networks, companies or their divisions can concentrate on what they do best and can farm out the rest to partners. Jessica Lipnack and Jeffrey Stamps, co-authors of *The TeamNet Factor,* have spotted such networks everywhere from Denmark to northern Italy to Minnesota.

In short, the technology of small is remaking the economy. It's helping big companies compete internationally, while helping smaller ones grow faster (charts, page 30). So far, the effect is most pronounced in the white-collar world. But even in factories, traditional notions of economies of scale are changing. Big companies are embracing technology that lets them emulate more flexible job shops. And far-sighted small manufacturers are buying the precision machinery needed to compete with, or at least to supply, multinational giants.

To be sure, the gadgetry has to be used wisely. General Motors Corp. could have bought Toyota Motor Corp. three times over with what it put into capital spending in the 1980s, yet it lost market share. A chastened General Electric Co. has ripped out some factory automation, including at a helicopter-engine-parts line in Lynn, Mass. last year. Says Gary M. Reiner, vice-president for business development: "We have found that technology in many instances impedes productivity"—if it reduces flexibilty.

Indeed, big companies' problems with technology often stem from sclerosis. Two years ago, Raymond L. Manganelli's New York consulting firm, Gateway Information Services Inc., was helping a client weed out useless computer reports. He found one that was being churned out regularly for an employee who had died in 1958: "He had asked for that report very, very early on in the history of automation, and it was included in each upgrading or rebuilding of the system," says Manganelli.

Small businesses, by contrast, are more likely to underuse than overuse the new tools. The owners may be too busy, too short on cash—or just too set in their ways—to invest even in gear that would quickly pay for itself. That's a chronic problem for small manufacturers. "Most of them are far behind," says Leo Reddy, president of Washington's National Coalition for Advanced Manufacturing. No wonder that, according to the Industrial Technology Institute in Ann Arbor, Mich., the productivity of big manufac-

E BREAKTHROUGHS THAT LET
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COMPANIES ACT SMALL

IPUTERIZED ORMATION	MANUFACTURING
companies don't their own well- ed business ies. Commercial oases, a phone line put a vast store ts at their disposal.	Computer controls on machine tools and electronic exchange of data help small companies provide quality equal to that of giant manufacturers.
orate giants can rough their mers' purchasing ds by computer, g to know their s and needs as s the local hant does.	Manufacturing methods that produce cost-effective small lots let big factories offer the sort of customized products once available only from little guys.

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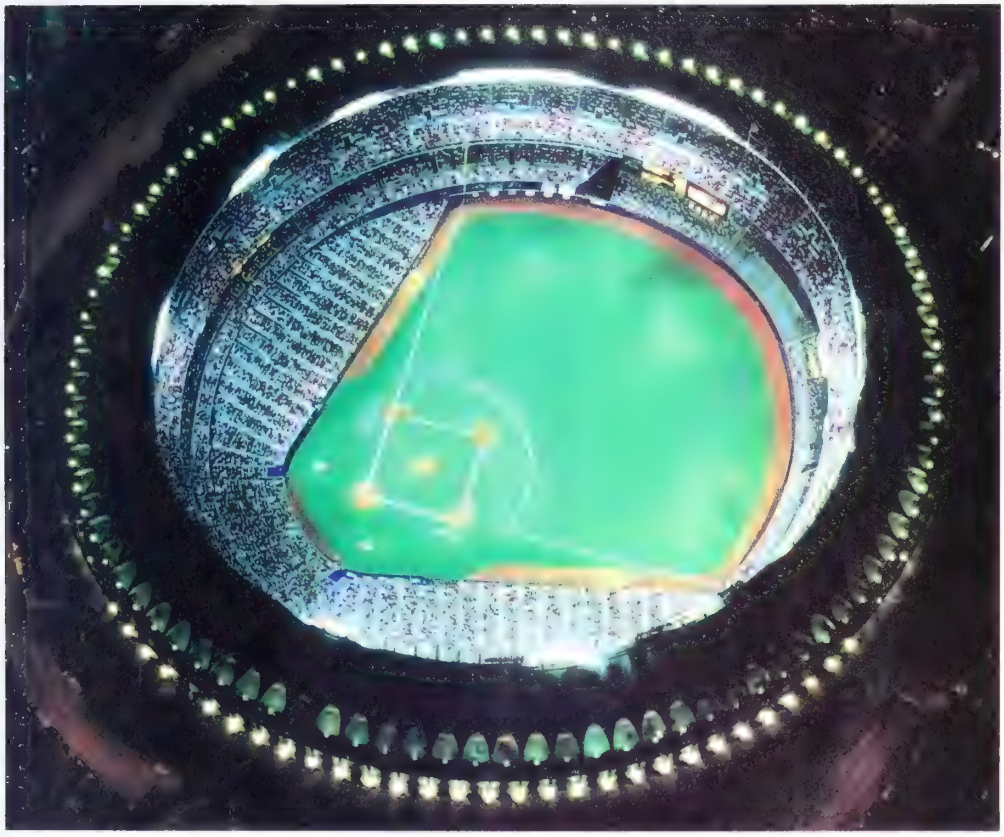

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turers exceeds that of small ones—and the gap has been widening ever since recordkeeping began in 1958.

The good news is that a younger generation of small-business people—those who are in their 20s, 30s, and 40s—is eagerly embracing the new machines and software. Take J. Bronce Henderson III, 42. In 1980, he joined his father's $2 million-a-year job shop, Detroit Center Tool. Soon, he spotted enormous opportunities. Rivals were sticking loyally—and foolishly, he thought—to outmoded production gear. "It's easy to fall in love with 30-year-old equipment that has zero book value and figure you have a low cost of production," Henderson says.

Instead of counting pennies, Henderson bought new gear and moved up to making welding and assembly robots for the auto industry. Today, DCT Cos. does $150 million a year in revenue and counts Toyota, Nissan, and Honda as customers. "I'm a technology junkie," Henderson says. "I can't always explain it to my accountant. But at the end of the day, with new equipment, I have better quality, higher productivity, and our costs are lower."

Another tech junkie, 34-year-old Andrew W. Harris, resigned from Apple Computer Inc. 1½ years ago—disappointed, he says, that the company wasn't encouraging its employees to work from home. He thought this would save money and unleash creativity. In 1989, while still at Apple, he co-founded San Francisco-based Telemorphix Inc., a company with no headquarters. Its 30 employees, most of whom create interactive television programs, work mainly at home and keep in touch by phone, fax, and computer. PacerForum, a program from Pacer Software that's akin to Lotus Notes, serves as their virtual office space. Says Harris: "This liberates us. If we find someone extremely talented who's in London, they don't have to move."

There are lots of other guerrilla entrepreneurs. At age 8, Kelly J. Loneman began playing with a Commodore computer. At 20, he tried to persuade silkscreen companies in Omaha to throw away their pens and prepare clothing designs on Macintoshes. They didn't—so Loneman did, making designs with a borrowed Mac in his parents' basement. At 24, he owns an Omaha company, Koala Tee Custom Sportswear Inc., with sales of $1 million a year. U ing the Mac, he can deliver a shirt one week instead of two.

Like other techno-savvy entrepre eurs, Loneman latches on to anythi that might give him an edge. He sign up for a phone-company data servi called Integrated Services Digital N work after reading about it in a lo business journal. It has let him central production in an old industrial secti of town, where his plant should be a to receive computerized orders in o 20 seconds from storefronts around t country. Loneman has one shop in W Omaha and is planning another in K sas City, Mo., next year. "We can go i another city or area of town with j two people," he adds.

Can a giant company emulate the e trepreneurial spirit of Terry and Kat rine Magrath, Andy Harris, or Ke Loneman? Probably not, if it's organiz hierarchically. In those cases, the m function of middle management is pass information up from the bott and orders down from the top. "Eigh percent of what companies do the days is controls or hand-offs," says c sultant Manganelli.

Lands' End Inc. in Dodgeville, W is trying to eliminate many of those c trols and hand-offs through compu

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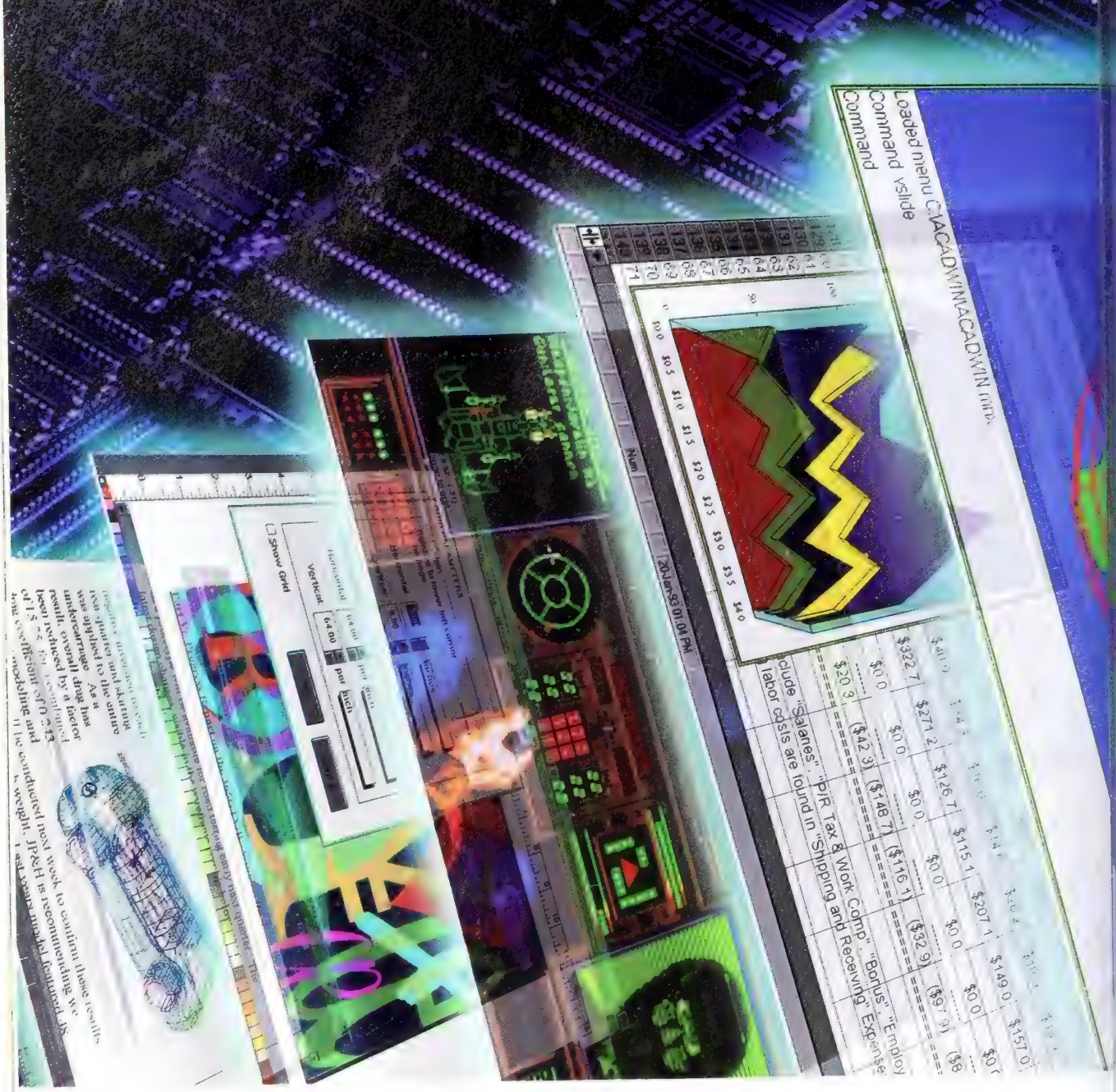

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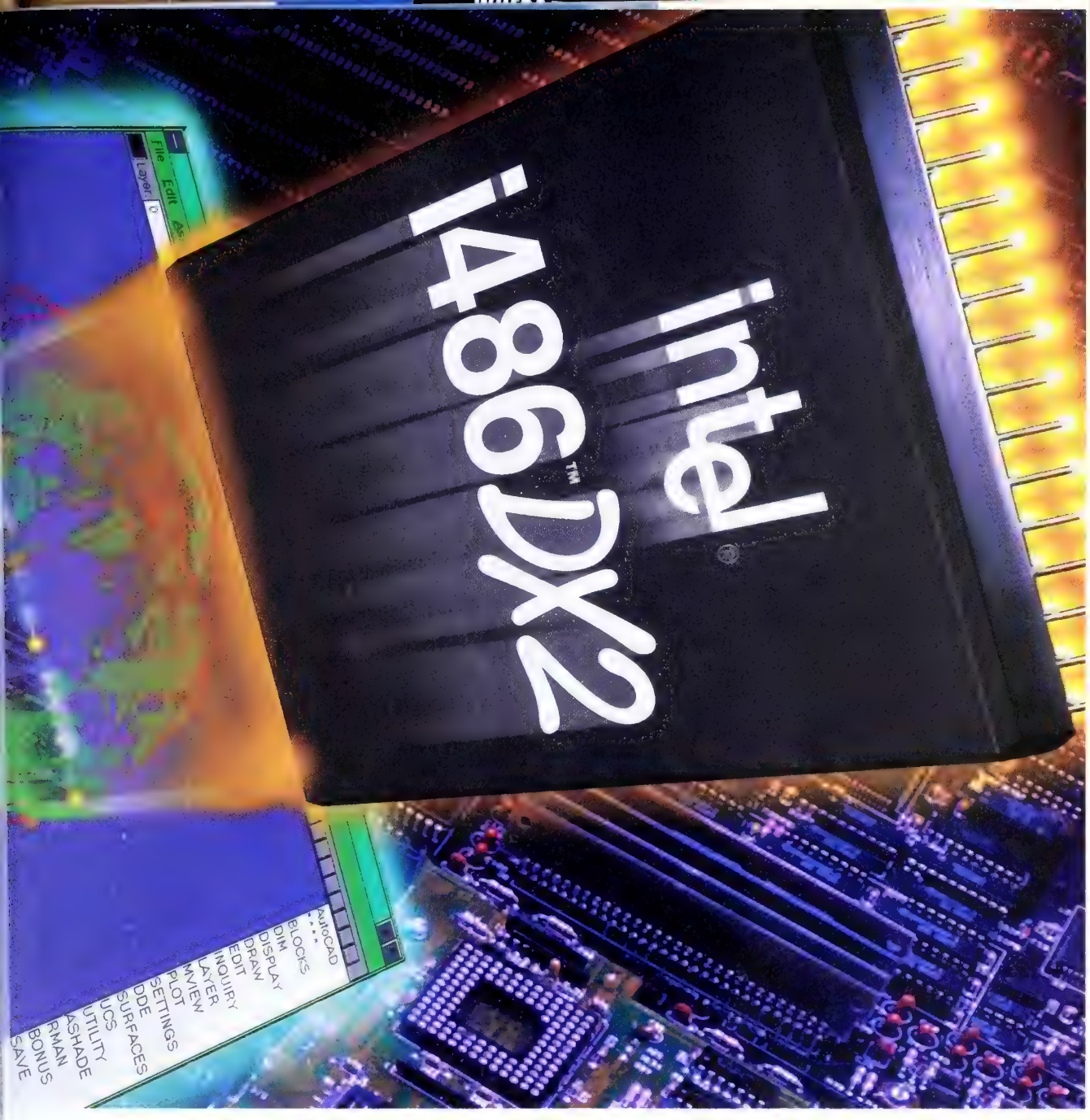

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networking. Items in the catalog of the $700 million mail-order clothing company tend to run out. To avoid that, an inventory manager has to notice that the stocks are getting low, then call a salesperson for the manufacturer, who tells the factory's production planner. With vacations and telephone tag slowing things down, "Lord knows, weeks could go by," says Gary R. Steuck, vice-president for inventory management.

But on 15% of items, the ordering loop has been drastically shortened. For those, Lands' End inventory reports go directly to the factory by computer hookup. With faster feedback, production is better calibrated and "stock-outs" are far rarer. Some suppliers' salespeople resisted the change, fearing that they would lose influence by being cut out of the loop. But Steuck says they now like it, too. Freed from the drudgery of processing reorders, they can work on persuading Lands' End to include their clothes in future catalogs. Steuck says he hopes to get 85% of items on the system in two to three years.

Big companies that act small also do it by using technology as a servant of their individual business units. Merrill Lynch & Co. adopted that philosophy three years ago, after DuWayne Peterson Jr., a technical whiz, was succeeded as chief information officer by Edward L. Goldberg, who had more experience in management. Under Peterson, the programmers had been all in one place. Units such as retail brokerages had to wait in line for software requests. Goldberg gave each unit its own programmers, increasing responsiveness without increasing staff. Says Howard P. Sorgen, senior vice-president for global information services: "In the way we employ technologies, we are an amalgam of small businesses."

Skeptics question whether makeovers such as Merrill Lynch's really are motivated by advances in computers and other technical gear. The real impetus, they say, is management philosophy. "Technology is almost entirely an enabler and very rarely a driver of change," argues Gary W. Loveman, assistant professor at Harvard business school.

You don't have to agree with Loveman 100% to think of cases where the best solution is low-tech. Sharam Shirazi, a Silicon Valley executive, recalls how a previous employer, chipmaker Zilog Inc., overcame internecine warfare. "Everyone in Building C [marketing] and Building D [engineering] hated each other. So we meshed them in one place. They ended up liking each other," says Shirazi.

Detroit calls that "co-location." Chrysler Corp. used it to solidify the teams of researchers, designers, manufacturing experts, and marketers who created its LH sedan and new Neon subcompact. Says Shirazi, now marketing vice-president in Menlo Park, Calif., for Teknekron Corp., a diversified electronics and software company: "E-mail, speaker phones—those are for conveying information. If I really need someone's help, nothing beats going over to him and saying: 'John, I need your help. Let's sit down.' "

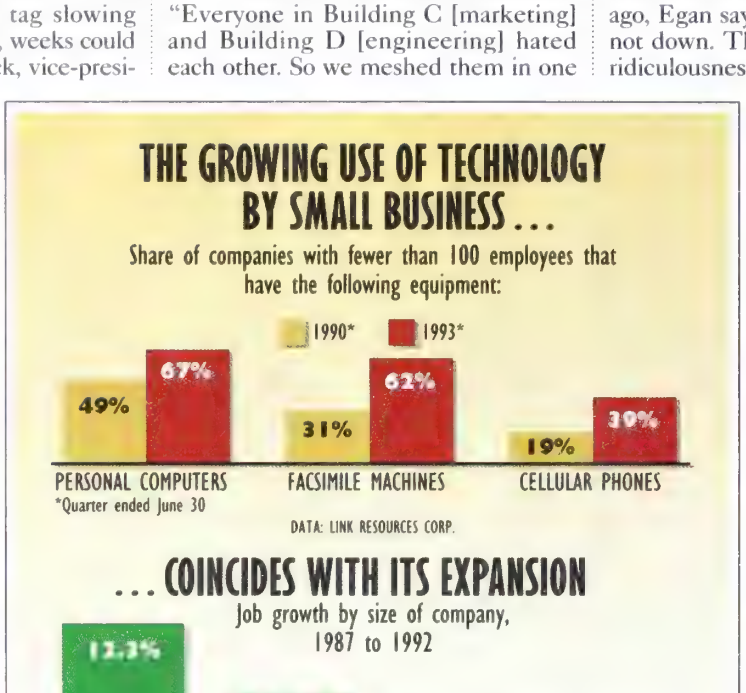
But what if John is 2,000 miles away? In such cases, the answer may be ad hoc, fluid arrangements—the virtual corporation—and that's where information systems come to the fore. For a glimpse of the possible future, visit Bruce L. Egan, a consultant for phone companies who works from Jackson Hole, Wyo. Since he moved from Manhattan two years ago, Egan says, "my productivity is up, not down. The reason is that the daily ridiculousness doesn't happen."

Consultants like Egan have operated from hidden spots for years. One difference now is the size of the jobs with which they're entrusted—in Egan's case, contracts of up to $500,000 for helping phone companies plan and market new services. He and his far-flung colaborators aren't taking crumbs of work from consultants such as Arthur Andersen, Marsh & McClennan, or McGraw-Hill Inc.'s DRI. Quite the contrary: Often, Egan hands off work such as data collection to his larger rivals.

Some customers never realize how small Egan's operation is, and those who do are able to take it in stride. Egan attributes that to their growing comfort with the network age. He still prefers having face-to-face meetings for cooking up new ideas. But he adds: "I've worked for a lot of people I've never seen. People just accept that we will take on a large project and complete it satisfactorily."

Harvard's Loveman may be right that technology is only an enabler of new forms of business organization, not a driver of change. But acolytes of the information age aren't particularly interested in such distinctions. They have proved that the smart application of the new tools can spell success for big companies as well as small. On this particularly golden afternoon, Bruce Egan has a different kind of driver in mind—the kind he's about to use off the first tee.

With Tim Smart in New Haven



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BELT-TIGHTENING THE SMART WAY

After savage cutbacks in management, many large companies are learning to be more productive with less

BY JOHN A. BYRNE

From Armonk, N. Y., to Zurich, Switzerland, business is on a weight-loss binge. Over the past five years, even such domineering presences as IBM and ABB Asea Brown Boveri have shed employees, layers of management, and old ways of doing things. They have reengineered work processes and raised efficiency by creating quality initiatives, multidisciplinary teams of workers, and employee empowerment programs. Strip away the business babble, and it comes down to this: Top-heavy organizations are out. Slender, nimble ones are in. "We need to cultivate a visceral hatred of bureaucracy," General Electric Co. Chairman John F. Welch Jr. told his shareholders earlier this year.

Talk all you want about the turbocharging effect on business of computers, faxes, cellular phones, and high-speed data communications. None of it makes much difference unless it's accompanied by what is coming to be called lean management. Defined simply, that means eliminating useless work and the people who do it, and running what's left according to a new set of principles and skills. With entire layers of management gone, senior executives who once ruled by pushing buttons have to learn "team managing, giving and receiving feedback, and diagnosing prob-

ILLUSTRATION BY PAUL ROGERS

is," says Noel M. Tichy, a manage-
nt professor at the University of
:higan. "Yet this soft stuff is a bunch
rap if it's not combined with hard-
ed performance standards."
ntrepreneurs long ago learned all this
ıecessity. Undercapitalized and poor-
taffed, they had to stretch resources
he limit. For those who survived,
disadvantage became a competitive
ɔiration: You waste less money and
e if you have little of both. Slowly,
n Corporate America is seeing that
in the way of resources and man-
ment can translate into something
d: productivity. "Most struggling
ıpanies are overmanaged and under-
" believes Lawrence A. Bossidy,
irman of AlliedSignal Inc. "Having
many resources is the basis of a lot of
ure. I try to make sure my people
't have enough of what they want."
is logic: Back when large corpora-
ıs had nearly unlimited budgets,
ıagers spent money indiscriminate-
Doling out fewer resources forces
se people to focus more on what's
: for a business. That's why so many
ups, with less capital and smaller re-
ch and development budgets, often
ɔace bigger competitors in bringing
products. "It's a mind-set," Bossidy
s, "more than it is about money."
or many corporations, this amounts
n extraordinary change in attitude.
ough the postwar boom, most U. S.
ustries added staff by the tens of
ısands, while piling on rigid controls
elp manage the horde of new hires.
enues and productivity were grow-
and companies could afford the ex-
layers. Beyond that, management
vinced itself that large numbers of
te-collar staffers were needed to
p up with growth.
hat view began to change by the
y 1980s, with the onset of global
ıpetition. In short order, many com-
ies found their cost structures out of
: with the marketplace. Cutbacks in
dle management followed, and with
ie came another surprise: The man-
rs who remained had to give up a
d measure of control to workers.
n years ago, we thought that if you
four employees reporting to every
ıager, your managers were over-
ked," says Bossidy. "We've discov-
l that if you have nine, you have less
e to manage"—and must rely on
ordinates to help out.
his trend may be gathering steam.
ısultants and academics say that
ıns of control"—the number of em-
ees each manager supervises—have risen to as high as 30 to 1 in divisions of companies such as Ameritech, the Baby Bell. That's largely because people who did much of the staff work —financial analysts, assistant managers, and their like—have disappeared at a staggering rate. "You've got to push out the old work, which was about monitoring, inspecting, and overmanaging," says John W. Humphrey, chief executive of Forum Corp., a Boston consulting and training firm. Unlike some consultants, Humphrey has taken his own advice. Forum, with $40 million in revenues, has eliminated three of its eight levels of management. Some 14 people report to Humphrey vs. five as recently as two years ago, and other Forum executives now manage up to 22 people.

"Five or six years ago, we had a name for that," says Humphrey. "We called it bad management. But if you organize your company for it, it's doable." When one of his subordinates recently hired a No. 2 from outside, he alone made the decision. "Before, he would not have made the offer without my approval."

Going from the old way to the new involves culture shock. People are eliminated, but work isn't, at least not at first. That was true at General Electric, which employed about 400,000 people in the early 1980s and now has about 230,000, even though its revenues have risen 150% in the interim. "Initially at GE, middle managers were dying," says the University of Michigan's Tichy. "The middle managers were saying things like, 'I know adding head-count isn't the answer, but I'm working seven days a week trying to do all the old things, and it isn't working.' " As a consultant at GE during that transition, Tichy helped Welch redesign education and training efforts to make them a critical part of the corporation's transformation.

The turmoil eased once GE eliminated unnecessary tasks, a goal accom-

HOW LEAN IS YOUR COMPANY?

It's hard to find a major corporation that hasn't downsized in recent years. But simple reductions in staffing don't make for lean management. Here's a checklist, developed from interviews with executives and consultants, that may tell you if your company needs a diet.

	COMPANY CHARACTERISTIC	ANALYSIS
1	Layers of management between CEO and the shop floor	Some companies, such as Ameritech, now have as few as four or five where as many as 12 had been common. More than six is most likely too many.
2	Number of employees managed by the typical executive	At lean companies, spans of control range up to one manager to 30 staffers. A ratio of lower than 1:10 is a warning of arterial sclerosis.
3	Amount of work cut out by your downsizing	Eliminating jobs without cutting out work can bring disaster. A downsizing should be accompanied by at least a 25% reduction in the number of tasks performed. Some lean companies have hit 50%.
4	Skill levels of the surviving management group	Managers must learn to accept more responsibility and to eliminate unneeded work. Have you taught them how?
5	Size of your largest profit center by number of employees	Break down large operating units into smaller profit centers—less than 500 employees is a popular cutoff—to gain the economies of entrepreneurship and offset the burdens of scale.
6	Post-downsizing size of staff at corporate headquarters	The largest layoffs, on a percentage basis, should be at corporate headquarters. It is often the most overstaffed—and the most removed from customers.

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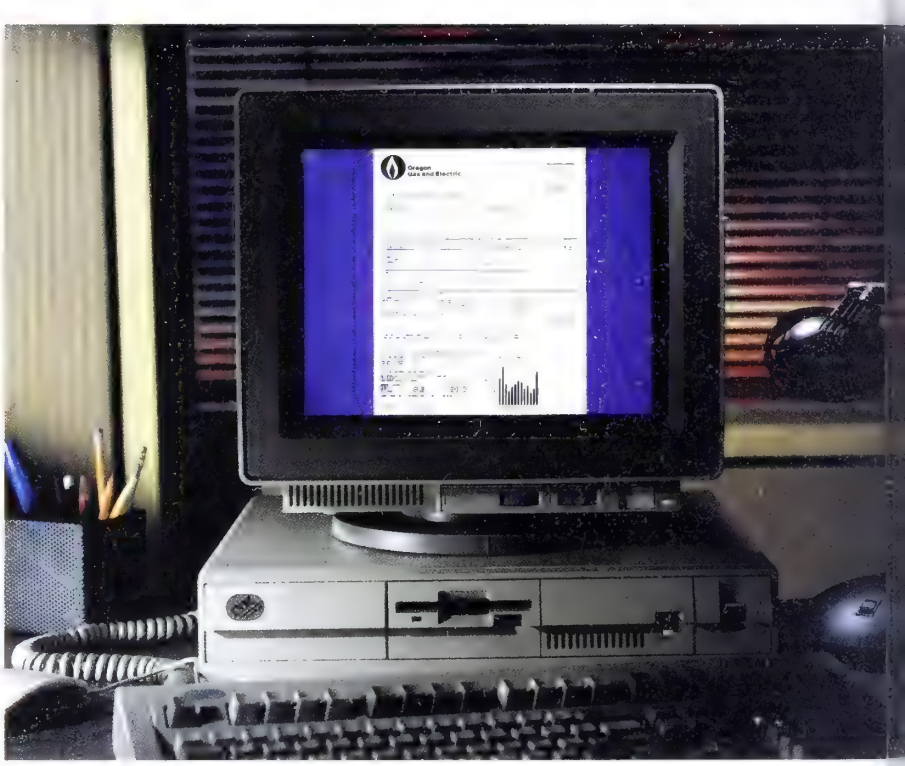

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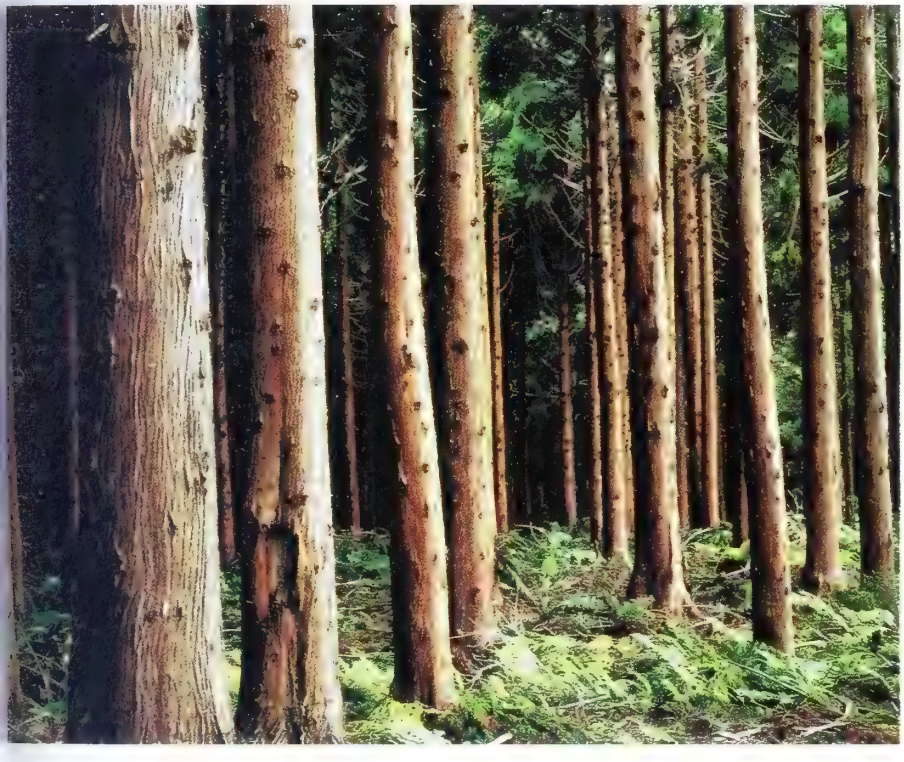

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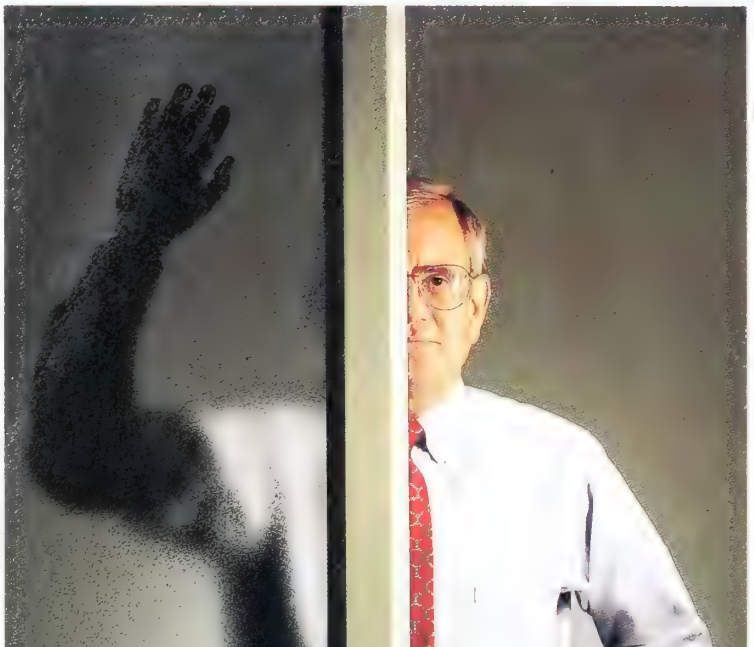

DUPONT'S AXTELL: MAKE TIME TO "DO HEALING" WITH THE SURVIVORS

plished largely through numerous sessions between managers at all levels who sought to break down GE's bureaucracy. In the company's medical systems group, for example, it once took eight signatures to get a replacement part for a magnetic resonance imaging system into a hospital. Those approvals had been added over the years for internal, bureaucratic reasons that had long since become obscure—so they were easy to dump. "Now you don't need any," says Tichy, and parts get delivered on demand. "You do what's right for the customer," he adds.

DuPont Co. is another case in point. Like many large companies, the chemical giant began to see vast changes in its markets in the mid-1980s that undermined its economies of scale. In its worldwide nylon business, a $500 million operation, competitors with lower labor costs and similar technology flooded the market and created vast overcapacity. "It put immense pressure on our customers and us," says Robert M. Axtell, worldwide director for DuPont's nylon business.

DuPont's solution was to reduce overhead and make tough choices about what kind of organization it needed to compete. Over a two-year period, Axtell cut 20% to 25% of the staffers in every function, from research to marketing, without significantly affecting the performance of those departments. Two layers of management were stripped out. A unit that had been divided into two segments—the commodity and specialty nylon businesses—was broken into nine. That forced a tighter focus on each business—and gave profit-and-loss responsibility to more managers.

As at GE, the next step was eliminating tasks. In deciding what work to cut, Axtell kept asking: Is it really tied to the bottom line? Does it add value? "A lot of management was just checking the checkers," he says. "There were people around just asking questions and not getting any job done." Since those days, "we have taken the business from a point where it was questionable whether the corporation would invest in us to the point where it will." DuPont does not break out profits for its nylon group.

If getting leaner has taught Axtell a lesson, it's this: Stay in close touch with both your employees and your customers. "You can't communicate enough, because there is a lot of confusion when you restructure," he adds. Move quickly to get it over with, he suggests, and make sure you have time to "do healing" with the survivors. "You must spend a lot of time team-building with the people who are left."

Lean management isn't always about cutting overhead. Sometimes it means placing more emphasis on the company's core work—satisfying customers. Take Pepsi-Cola Co., the huge unit of PepsiCo Inc. In recent years, smaller companies, such as Snapple Beverage Corp., began to hi away at the beve market dominate Pepsi and Coca- with fruit drinks, tea, and iced co CEO Craig Weath says Pepsi found "doing things the old way because t the way we did th We had allowed a ture to develop ar the notion that we make [Pepsi], ser down the chute, take in the money.

Rising compet meant it was no lo that simple. To resp better to retai Weatherup streaml Pepsi last Decem cutting the layer management betw himself and custo reps from six to fou also turned the org zation chart on its h putting the field rep top. "The right-sid company," as Weath calls Pepsi, "char from an organiza that was focused on isfying top manager to one now focused the customer."

How so? Before, "when senior m agement went out to the field, emp ees were mainly worried about their r sentations to us," says Brenda Bar chief operating officer. "Now, the f is on how I can help them make t job easier." Fewer layers of man ment, she adds, means "you hav empower people." For example, f reps now plot marketing and promo with customers—without having to higher approval. Reps who find a p uct out of stock call for the item im diately instead of waiting days for a n mal delivery. The bottom line: P Cola's U. S. operating earnings in 19 first half jumped 15% to $431 mil on a 5% rise in revenues to $2.6 bil

How do you know if all the f gone? "You should never be satis that you're lean enough," contends nest I. Glickman, managing partn Harbridge House Inc., a consulting f "The best companies will consta look for ways to slim down." This is diet, in short, that may never end.

With Tim Smart in New H

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HOW TO GET CLOSER TO YOUR CUSTOMERS

Often, you don't need huge budgets for effective marketing

BY CHRISTOPHER POWER

They were two of marketing's greatest entrepreneurs. In 1916, Clarence Saunders of Memphis opened a small grocery store—the forerunner of today's Piggly Wiggly—where shoppers, not clerks, picked up items themselves and took them to the cash register. In 1930, Michael Cullen of Long Island added a twist: He turned a parking garage into a spacious supermarket that offered unprecedented variety. To spur demand, Cullen took out big newspaper advertisements to promote name brands such as Ivory soap and Maxwell House coffee. The mass-marketing revolution in America was born—and retailers and brand-name manufacturers were to profit immensely.

Skip forward six decades. Retailers of every stripe are under intense pressure. Merchants and developers have doubled the amount of store space in the U. S. over the past 12 years, even as Americans' real income has barely grown. Giant chains such as Wal-Mart Stores Inc. dominate this glutted market and pu their own store brands. Increasingly, e tablished marketers such as Procter Gamble Co. and Philip Morris Cos. v for consumers who have often conclu ed that the only difference betwe brands is price. Private-label and d count cigarettes, for example, now a count for 37% of industry sales, up fro almost zero 12 years ago.

THE PEPPERONI FILES: PIZZA HUT KEEPS A DATA BASE ON WHAT FOLKS LIKE

If classic mass-marketing no long packs the same punch, what's a comp ny to do? Marketers are starting to a swer that question the way Karl A. St gerwald does: "We have to go back

That little map wasn't
worth two dead flies.

You said turn left.

Right like turn right
or right like not wrong?

Right.

You know what I mean.
See ya at the clubhouse.

When you want the convenience of a cellular phone, you need the quality of a Motorola.

MOTOROLA

being small shopkeepers," says the marketing director of Spiegel Inc. Steigerwald obviously doesn't mean tearing down supermarkets. In some ways, the task is more daunting than that: Steigerwald thinks marketers should travel the painful road back to developing relationships with customers who are now grossly overloaded with product choices.

That means thinking small and acting entrepreneurial—whether you're a giant such as Spiegel, PepsiCo, or 3M, or an up-and-comer such as Manco, a duct-tape maker, or Health Valley Foods, a New Age food marketer. It also means stepping back from the old tactics of 30-second commercials, product line extensions, and massive promotions, and thinking instead of new ways to appeal to consumers. Companies both big and small can accomplish this through technology that uses vast new data bases to plumb people's buying habits. Or they may devise promotional strategies that make a marketing campaign especially memorable—and create a tighter bond with the consumer. The idea, whether big or small, is to recapture the drive and originality of Saunders and Cullen.

If those marketers were alive today, they might already have latched onto data-base marketing. That's what Pizza Hut, PepsiCo Inc.'s $3.6 billion fast-food unit, has been doing. This year it is spending an estimated $20 million on this strategy, which involves creating electronic profiles of some 9 million customers who have gotten deliveries of its pizza. Built from phone orders since the company began home delivery in 1984, the data base can track pizza-gobbling habits across the country. As a result, says marketing chief Robert Perkins, "you can target the relevant message to the right consumer." As a direct marketer for the Republican Party in the 1980s, he pioneered data-base methods that reaped millions in contributions. Now, his goal at Pizza Hut is "returning marketing to the 19th century," a time when merchants knew their customers by name.

MANCO'S JACK KAHL MADE HAY FROM THE FACT THAT PEOPLE SAY "DUCK TAPE"

He can't do that exactly. But in promotions this summer, his office sent out coupons that matched the tastes of the addressees: Lovers of Neapolitan-style pizza got offers for those, not for thick-crust pizza. Consumers who had been willing to try new foods got a mailing for Bigfoot, a giant-pizza innovation. Customers who had not ordered in a while got deeper discounts than others. Very precise—and very successful: Analysts expect third-quarter Pizza Hut earnings to rise 25%.

At Spiegel, Karl Steigerwald is thinking 19th century, too. In fact, catalog-merchandise buyers at the $2.2 billion marketer are now nicknamed "shopkeepers." That title reflects the changes Spiegel made in order to rebuild its earnings, which declined 77% between 1989 and 1991. Spiegel executives decided that the company's big catalog had to act like a small, customer-friendly one. To achieve that, Steigerwald told buyers for his book t sume they were c ing their own spec catalogs. Their o ings would then displayed more tinctly inside the catalog, somewhat boutiques in a ma

Liberated, the ers surveyed custo to devise "shops' women who wan romantic apparel, o customers who wa cheaper prices. T also set up a syste track sales by iter make sure the catalogs-inside-the alog reached their tended customers. result: some 20 cata folded inside the book, and a 12% s gain last year, as as a 32% jump in erating income.

Spiegel and P Hut are both gia that have used th ample finances to closer to custom But small marke need not despair. They can use sop ticated technology too. And they can nimbler marketing strategies to out bigger rivals.

Jack Kahl knows about taking on ants. The chief executive of Manco in Westlake, Ohio, has transformed maker of duct tape and packaging fi a $4 million company in 1977 to an million enterprise this year. In gi chains such as Wal-Mart and Km Manco now leads the market for t with about a 40% share, up from aln zero in 1979.

His secret: Ignore the conventio wisdom, which says you can't do m with a ho-hum commodity product, pecially when you're facing big, w entrenched competitors. Kahl noti that customers often called duct t "duck tape." Why not create a du mascot and inject some humor in marketing? "I said: 'If I can make t work, we'll have a brand name,' " calls Kahl. Soon, a goofy yellow du was festooning Manco's packaging in-store displays. Consumer recog tion—and sales—took off.

Manco would probably be just a fl in the pan, though, if Kahl had not f lowed the fun and games with seri

How do you move soft drinks in Manhattan? Hire folks who speak Korean

ork. He courted Wal-Mart, offering ial computer-based inventory con- that dramatically raises efficiency. also competes with 3M and others rice, cutting costs to retailers by up 0%. Lacking funds for massive ad paigns, Kahl sends out 32,000 greet- ards four times a year to buyers and agers at stores he supplies. Retail- lso get his newsletter, which prints hts from everyone from Socrates to mas Edison. The store managers rly remember him—and back his lucts against mighty competitors.

ahl created a new identity for a tired luct. Likewise, W. L. Gore & Asso- s, the maker of Gore-Tex fabrics, ted a new product in a tired catego- ental floss. Then, instead of adver- g massively, Gore used niche mar- ng and data-base technology to te customer enthusiasm.

he company's technicians applied r lessons in creating strong fibers to e a superslick floss. The product, d Glide, doesn't snap, slash gums, hred between the teeth. Well and l, but how to take on floss giants nson & Johnson and Gillette Co.'s -B division? John Spencer, the Gore ager responsible for le, went for word of ith in his launch last . Six months before hit drugstores, he samples to dentists them to hand out to patients. "The onse was incred- ," Spencer says.

ecause patients liked floss, many dentists ted buying it. To ure customer names future product iches, Gore at first Glide to the public through an 800 nber. In some in- ces, enthusiasts or- ed cases by phone. result, Glide had a e reputation and a of dedicated users re it hit the stores.

ealth Valley Foods, Irwindale (Calif.) er of health cereals, ps, and snacks, has n as clever as Gore utflanking big com- ies by using technol- and niche market- Started back in 0, the company at first sold just to health-food stores. It ignored supermarkets but even so was able to build an unusually loyal following.

It developed a bond with consumers in several ways: The founder, George Mateljan, often answered letters of complaint and inquiry himself, and consumers were able to get friendly advice on healthy eating by calling an 800 number. The names all went on a mailing list for special promotions on Health Valley's growing roster of products. Soon, Health Valley had enough customer loyalty to move into supermarkets, a remarkable achievement for an independent operating in a mass-consumption category such as cereal. Since 1989, its sales have doubled, to more than $100 million.

Glide and Health Valley Foods are both rising brands breaking into the crowded marketplace. Dannon, an established brand, is trying something else. By sharing research with retailers and tailoring marketing to individual chains, it increased sales 9% through late August vs. 7% for yogurt overall.

But it's possible, even without deep pockets, to revive a brand that has lost out. Take Soho Beverages Inc., which Tom Cox, a former manager at PepsiCo, bought with a partner from liquor marketer Seagram Co. after Seagram had acquired Soho and failed to make it thrive. The tiny brand, once a healthy niche product in New York and a few other places up and down the East Coast, languished inside Seagram because its sales force was unused to selling to delis.

By contrast, Cox has managed to boost sales 50%—from a small base—in the first eight months of 1993. Furthermore, he has done this on a shoestring budget that doesn't allow for such strategies as national data-base marketing. "We collect our data by hand," he says. He hired Korean- and Arabic-speaking college students and had his people walk into practically every delicatessen in Manhattan in order to reacquaint owners with the brand, spot consumption trends, and take orders. To create a new connection with consumers, he sponsored local designated-driver programs—and offered motorists free Soho Soda in the bargain. "It's guerrilla marketing," says Cox.

It's also a lesson in not giving up. The U.S. may not be virgin territory for marketers now, as it was back in the days of Clarence Saunders and Michael Cullen. Many consumers, however, still thirst for the new. Even more, they like to feel that they're being listened to. That may be a yearning the shopkeepers of old satisfied best—and one that still holds the secret for marketing success.

With Zachary Schiller in Cleveland

NARROWING THE GAP

HOW BIG MARKETERS CAN ACT AS DEFTLY AS SMALL COMPANIES...

TAP THE DATA BASE	Use purchase data to customize incentives and direct-mail based on demographics, location, product preference, and price.
HIRE FROM SMALLER RIVALS	They excel at "guerrilla marketing"—using local promotions to get close to customers and break through advertising clutter.
HELP YOUR RETAILER	Creating store-specific marketing programs—as Dannon does for retailers selling its yogurt—will win retailer loyalty, differentiate your product, and build local sales.

...AND SMALL MARKETERS CAN OUTWIT THE GIANTS

FIND THE MISSED OPPORTUNITIES	Small marketers can often focus on a relatively neglected product—such as duct tape or dental floss—and take share from a bigger player or increase sales in a tired category.
APPLY THE PERSONAL TOUCH	Smaller marketers can get a big payoff when top executives pay personal attention to customers' letters, retailers' queries, and sales staff's suggestions.
EMBRACE TECHNOLOGY	The cost of data base technology is dropping, making direct-mail marketing a viable tactic for small marketers with tight budgets.

SINCE

he immersed himself in **AST's** line of notebooks, Larry's collection of *Eucalyptus Globulus* has turned into *Shrubus Out of Controlus.*

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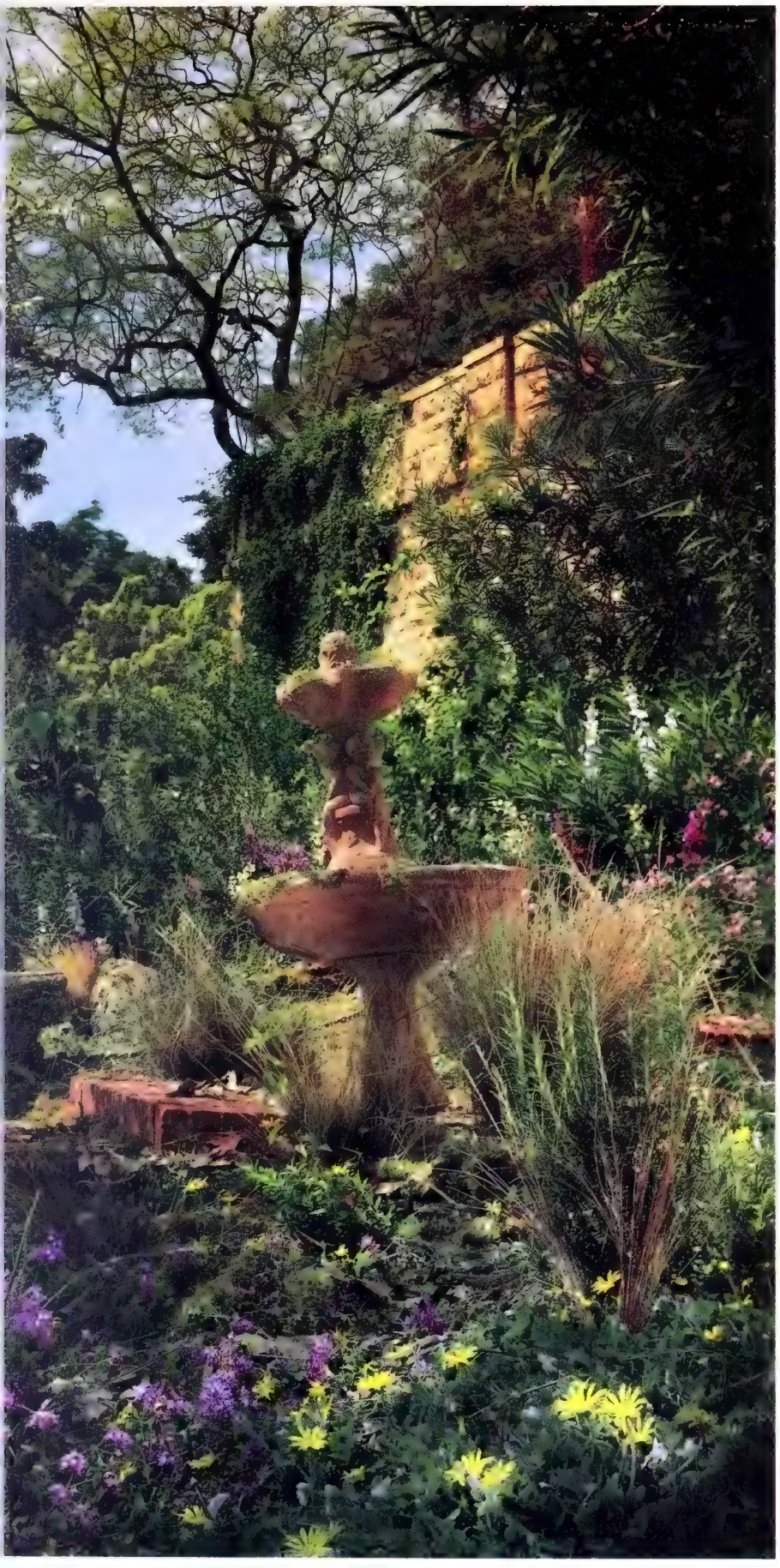

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THE RESPONSIVE FACTORY

A radical vision may level the field for all manufacturers

BY OTIS PORT

For two golden decades after World War II, mass production reigned supreme. The approach that the U.S. had honed for a century seemed the epitome of manufacturing. Then, everything went topsy-turvy. Economies of scale suddenly became less important than flexibility. Better quality, which many manufacturers had always assumed cost more, turned out to save money. And getting purchased parts delivered "just in time" mattered more than negotiating the lowest price. Even now, many companies have only partly adjusted to these innovations from Japan. "We weren't coming to grips with the enormity of what the Japanese pulled off," says Richard K. Dove, a consultant based in Oakland, Calif. "But now, there's growing recognition that we have got to develop a new vision of manufacturing."

The concept that's emerging will level the playing field for companies small and large. It goes by various names, such as the computer-integrated enterprise, the virtual factory, and agile manufacturing. Dove champions the latter and is a prime mover within Lehigh University's Agile Manufacturing Enterprise Forum, a 150-member consortium. Whatever its name, the new model will be a radical departure. It envisions bursting through factory walls to electronically link the plant floor—plus support functions such as design and purcha ing—into a dynamically responsive en ronment. "We're talking about a mu broader concept of manufacturing- about fully integrating the entire ente prise," says Gino J. Giocondi, Chrysl Corp.'s vice-president for quality a productivity.

With this information-driven approac success will hinge more on a company skill at exploiting on-line resources tha on its size or who owns the factor Huge manufacturers will be as nimb as small ones. And startups will star toe-to-toe with behemoths by tappi computer networks for key resource Information will whiz electronically ev ry which way among teams—not ne essarily in the same place or same cor pany—that will collaborate on desig logistics, production, marketing, and cu tomer service. The upshot will be a r sponsive factory that builds today wh

Paper is so inefficient that the Pentagon, for one, wants to go totally electronic

omers ordered yes- ay for delivery orrow. hat sounds like fic- listen to Carl ormick, president roup Technologies ., a $250 million er of electronic ponents in Tampa. eady, some of our omers change re- ements weekly," he "And we'll be talk- nours by the end of this decade. n, cross-scheduling of factories will ital." That is, signals will flash over nputer network to tell suppliers to x up—just in time. That's already ening in a few industries, notably maceuticals and retailing, says Lee age, director of business innovation ces at Ernst & Young. At Wal-Mart, Penney, and Kmart, data from kout terminals continuously ripple up the supply chain. Computers te the information from the stores dispatch replenishment orders to suppliers' computers.

his electronic commerce is made ible by new technologies with such ieldy names as electronic data inter- ge, product-data exchange specifica- and computer-aided acquisition and tics support. Before trying these nologies, though, experts advise that first step is to simplify shop-floor ations. Joseph O. Henley, manager nchronous manufacturing at jet-en- maker Pratt & Whitney, tells what ference that can make.

nchronous manufacturing, cooked by consultant Spectrum Manage- t Group Inc. in Wallingford, Conn., inates the bottlenecks that slow fac- work, starting with the biggest. At a V engine housing plant in Middle- n, Conn., that roadblock was a grind- machine that took 32 hours to set P&W cut that to two hours, then inated successive bottlenecks to ten the unit's 20-week production e by half in one year. Four years lat- Henley expects the cycle time to shrink to a mere three weeks. In- ories of parts and works-in-progress already down by 77%.

ow, Henley is helping P&W's sup- 's learn the same tricks. Dover Cast- a unit of Howmet Corp. in Dover, ., kicked off its program in July, ?—and has since cut the cycle time P&W castings to 4 weeks, from 16, trimmed inventories by 40%. More ntly, P&W coaxed a customer, Northwest Airlines Inc., into trying its approach. Since late last year, Northwest's Atlanta repair shop has reduced the time it takes to refurbish engines by 28%, to 43 days. Once a cost center, the facility now has time to repair engines for other carriers and should turn a profit next year.

As impressive as synchronous manufacturing may be, "you've got to do all kinds of other things, too," Henley says—including total quality control, concurrent engineering, and process reengineering. And get rid of paper, the bane of manufacturing. When blueprints are scattered around different departments and suppliers, you can bet that not everyone has the latest version. Result: rework. Then there are shop-floor work instructions. Each F-18 fighter fuselage made for McDonnell Douglas Corp. by Northrop Corp.'s El Segundo (Calif.) plant used to collect 16,000 sheets of paper during assembly. After the plant went paperless in 1989, by installing terminals at each assembly station, costs dropped 30%. No wonder the Defense Dept. wants to convert all paper transactions to electronic data.

The centerpiece of this push is CALS, or computer-aided acquisition and logistics support. It sets standards for conducting electronic commerce among contractors—from sending out purchase orders to relaying engineering data. And CALS is moving into the civilian sector, too. It has been adopted as part of a Commerce Dept. program to smooth the flow of design data between different breeds of computer systems. That won't stop at America's borders. Com-

CHARACTERISTICS OF THE RESPONSIVE FACTORY

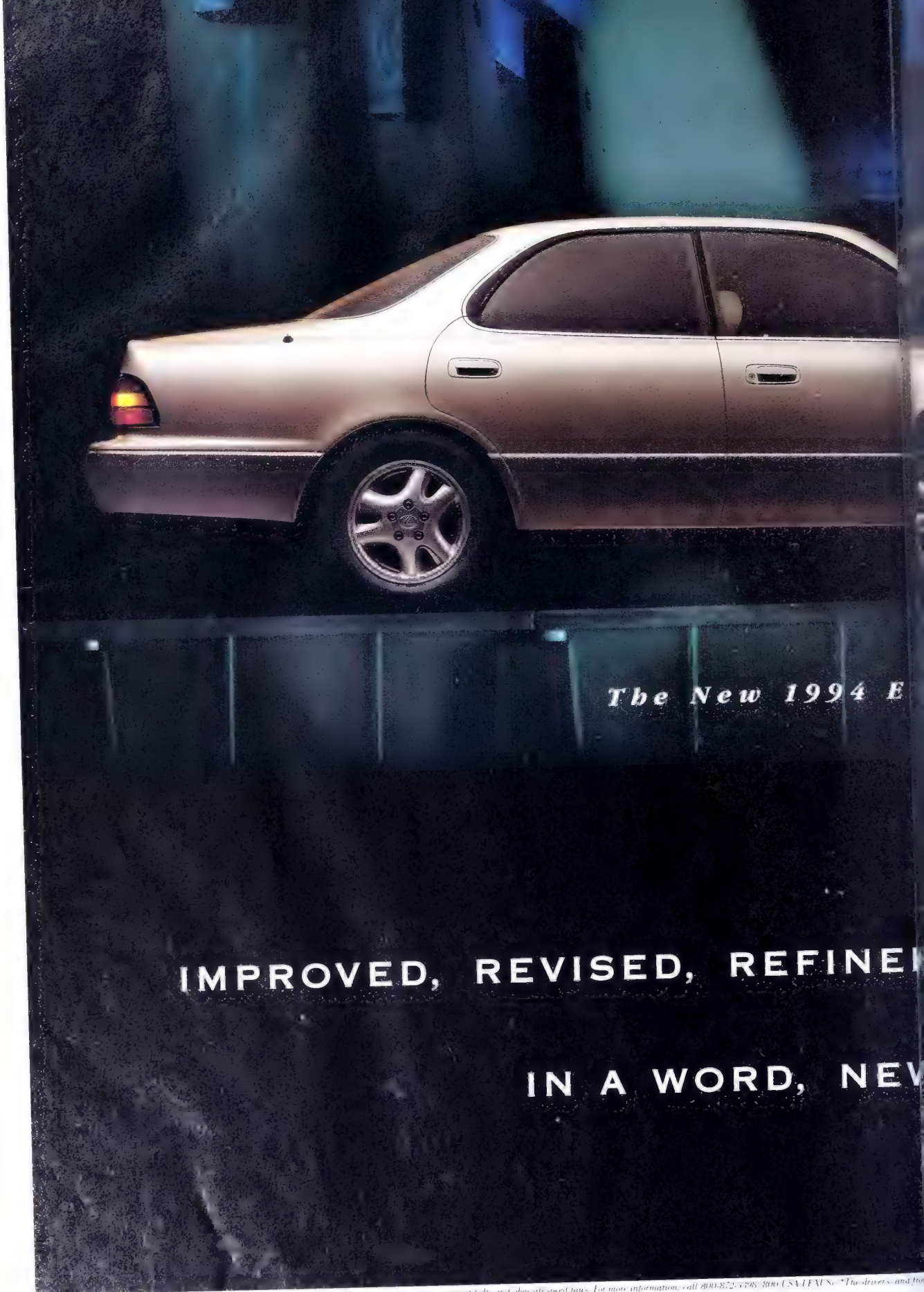
CONCURRENT EVERYTHING
Enterprise-wide computer integration, with electronic links to customers and suppliers, means that transactions occur mostly between computers, which will automatically route information to all the proper departments or operations.

FAST DEVELOPMENT CYCLES
A real-time data base will unite the distributed-processing computers used by design, engineering, production, logistics, marketing, and customer service—whether the work is done in-house or outsourced. All parties will have instant access to the latest information, eliminating the rework now caused by delays in shuffling paper.

FLEXIBLE PRODUCTION
Flexibility will be built into all levels of manufacturing, from the controls on each machine to the computers that coordinate work cells and factory-wide systems. Products can thus be turned out in greater variety and customized easily, with no cost penalty for small production runs.

QUICK RESPONSE
Dynamic factory-scheduling systems will put production "on call" and thus pare inventories to the bone. Production will begin only after a customer places an order.

COMMITMENT TO LIFELONG QUALITY
Ongoing quality programs will lead to continuous improvement of both processes and products. A primary focus will be to make products easier to recycle or dispose of in environmentally sound ways.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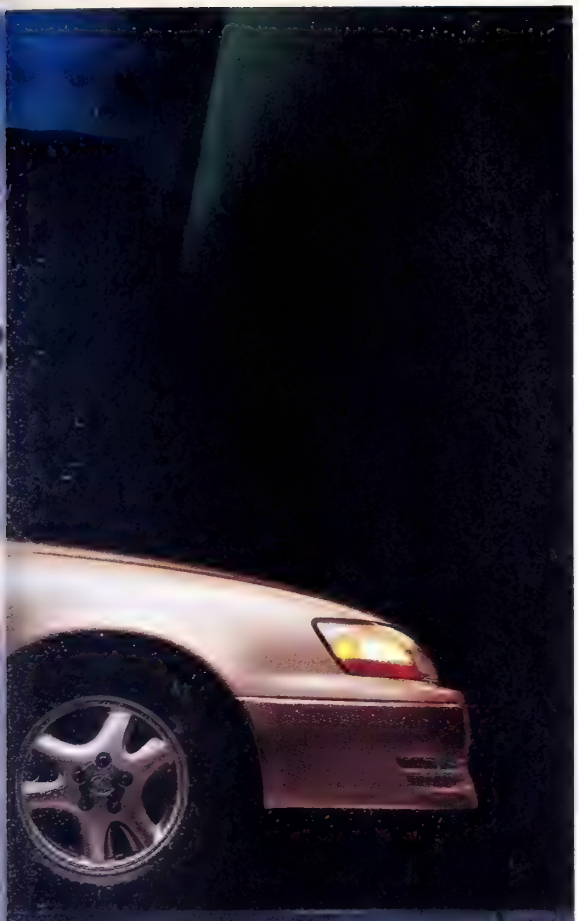

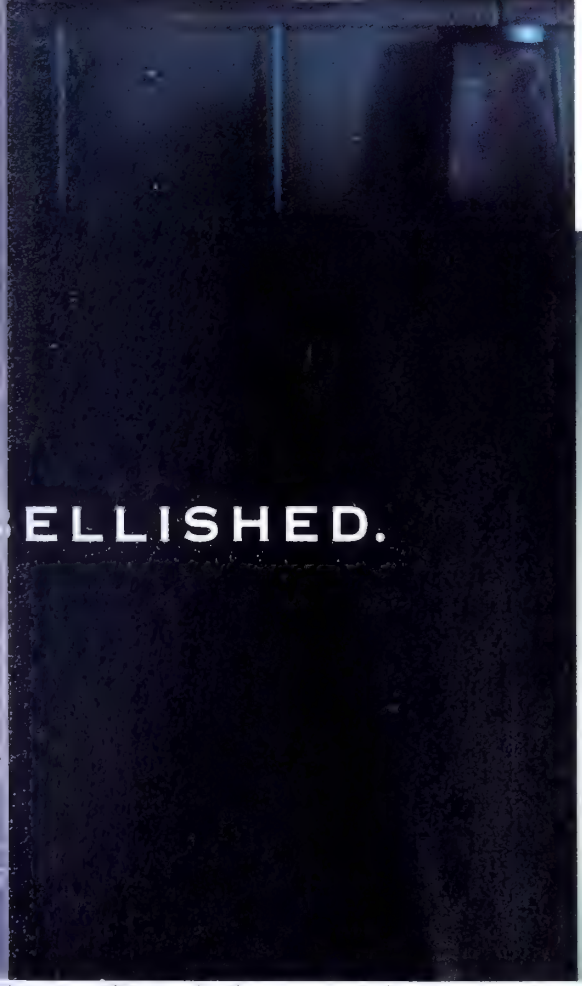

All-new aluminum engine, intelligent ECT-i transmission, dual airbags, exterior temperature gauge. And that's just the beginning. Presenting the 1994 ES.*

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*estraint System (SRS) is designed to inflate in a severe frontal collision. Airbags are a supplement to, not a replacement for, seat belts, which should be worn at all times by a[illegible] occupant.

merce is cooperating with the International Standards Organization in Geneva on a standard called STEP, which will give the agile-manufacturing network a global language. On Sept. 1, Ford Motor Co. and AlliedSignal Inc.'s plant in Kansas City, Mo., demonstrated what may become commonplace. A Ford computer sent the design for a car's connecting rod to an AlliedSignal factory computer, which transformed the design into instructions that it fed to a machine tool on the shop floor.

Computers talking to computers, handling not only routine electronic-data interchange (EDI) transactions but even programming each other—that will take some getting used to. But if anyone can bring it off, it's the U. S., says Roy A. Smith, director of the

JOHN S. ABBOTT

P&W'S HENLEY, RIGHT, INSPECTS A CASTING THAT ONCE TOOK FOUR TIMES AS LONG TO PRODUCE

Enterprise Integration L at America's first resea and development cons tium, the Microelectron & Computer Technol Corp. (MCC) in Aust Tex. "We're conditioned forming short-term partn ships in response to m ket opportunities." Jap will have a tougher tim he predicts, becau "Japanese society is bas on long-term perso relationships. They wo like the idea of electron replacing human int action."

Still, even U. S. mana ers will need coaching, pecially those at small a midsize companies. To g them up to speed, MC has teamed with the N tional Center for Manufacturing Scie es (NCMS), a 170-company group in A Arbor, Mich., and the agile forum at L high. Last year, MCC threw the swit

its Enterprise Integration Network. et lets little companies get resources y can't usually afford by dialing up on-line directory: Using EINet, a pursing agent can order parts from a cat- of worldwide suppliers or pay inces via an encrypted electronic ds-transfer service. EINet can handle rmation in any form—audio, video, phic images, or text.

mall manufacturers won't have to NCMS to get a taste of EINet. int Corp. is offering EINet services the 11,000 networks connected to rnet, the international network orig- ly set up by the Pentagon to link the ense community and university rchers.

lso, NCMS has launched a five-year rt to set up 150 "teaching factories" t will be linked to EINet. Three are n, and 20 more are in final planning, s NCMS President Edward A. Mill- They're patterned after similar facil- s in Japan that help small companies pt new technology in a fraction of time it takes in the U. S. EINet may bring NASA technologies and research muscle to small business. Under an agreement signed earlier this year, NASA will do joint research with NCMS members.

Some small manufacturers are way ahead of EINet. Over the past few years, progressive job shops have set up local computer networks to form collective, virtual enterprises with bigger clout. Roughly 75 of these so-called flexible manufacturing networks, which are often funded by state or local development agencies, operate in a dozen or more states. Oregon has the most—some 20 co-ops involving 200 companies.

Small plants are ganging up electronically to form beefy virtual enterprises

One of the newest is the Pacific Manufacturing Group in Washington state. Its nine members specialize in various high-tech processes that are related to metalworking or electromechanical components. "We want to provide a one-stop source in these services," explains Sean Blechschmidt, systems consultant at Proto-Design Inc., based in Bellevue, Wash.

Knowing how to use the emerging information infrastructure will soon be "essential to staying in business," says Group Technologies' McCormick. Five years from now, he insists, even suppliers of low-tech parts won't be able to get by without tools such as EDI and CALS. "Contract manufacturing used to be cost-driven," McCormick adds, so suppliers could survive by shaving prices. "Not any more. Product-life cycles are getting too darn short." There won't be time to cut prices because the product will have been delivered already. That's business in the age of the responsive factory. □

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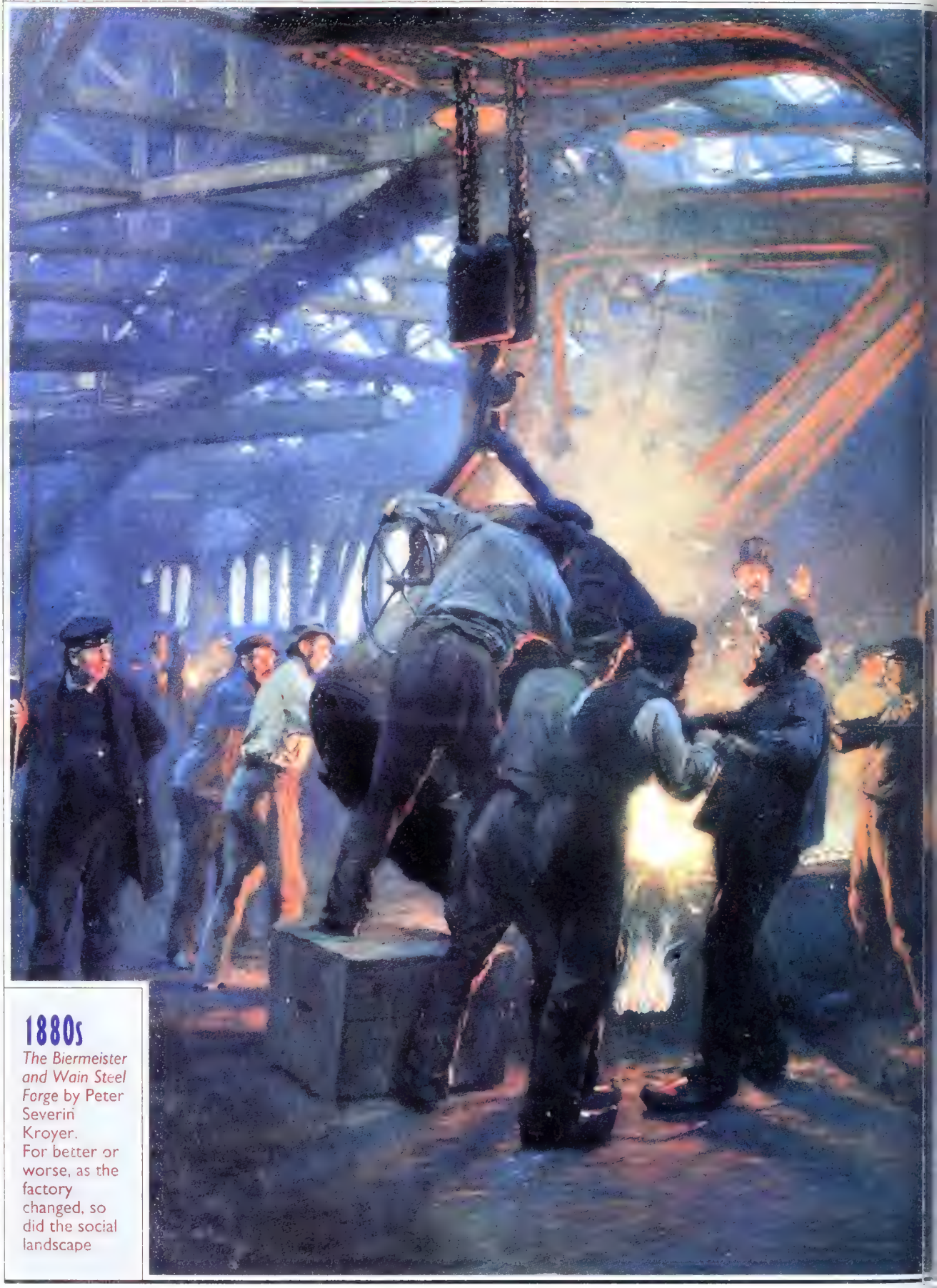


1880s

The Biermeister and Wain Steel Forge by Peter Severin Kroyer. For better or worse, as the factory changed, so did the social landscape

A WELLSPRING OF INNOVATION

Factories have changed relentlessly from 18th century mills to today's worker-empowered auto plants

BY CHRISTOPHER FARRELL

THE BOURGEOISIE, DURING ITS RULE OF SCARCE 100 YEARS, HAS CREATED MORE MASSIVE AND MORE COLOSSAL PRODUCTIVE FORCES THAN HAVE ALL PRECEDING GENERATIONS TOGETHER.

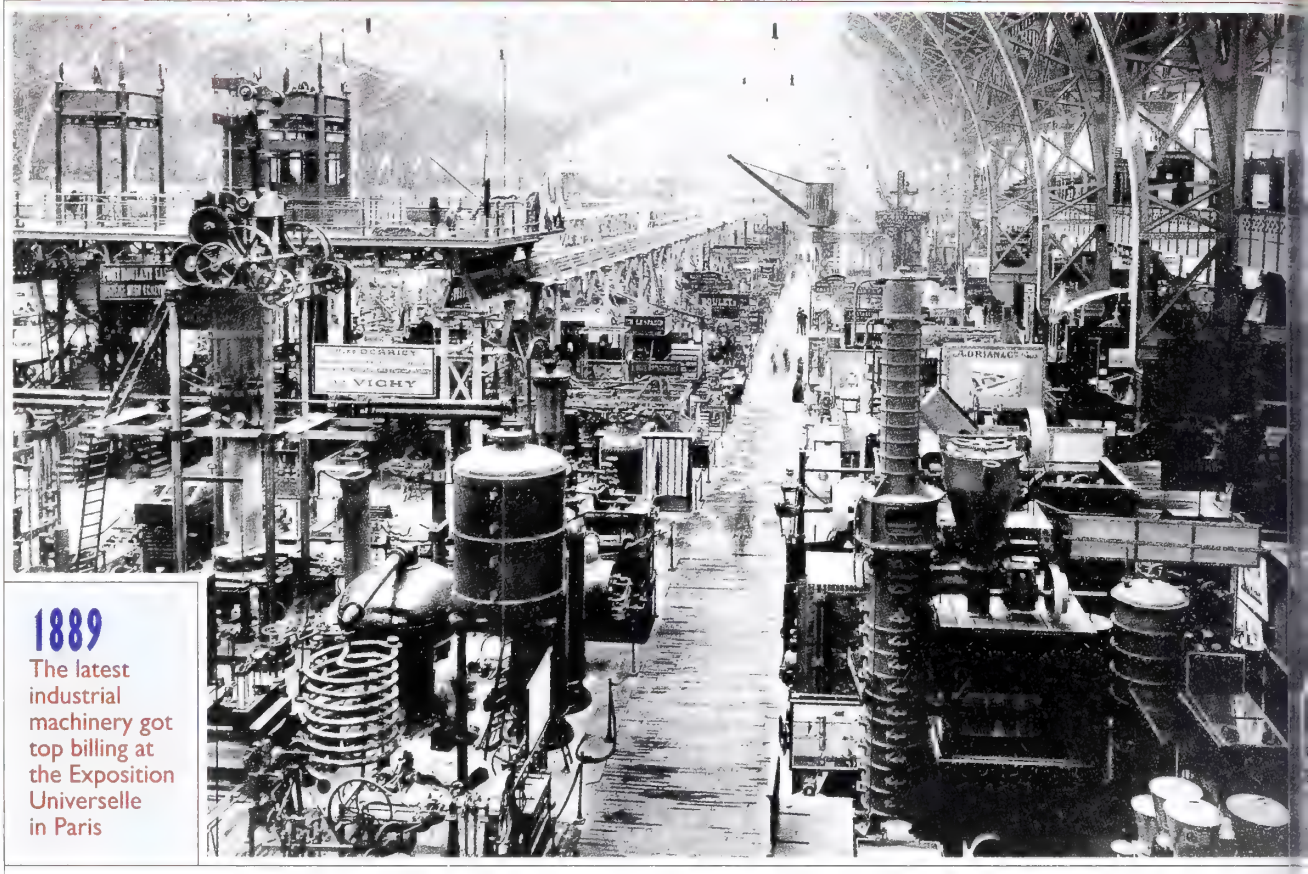
The Communist Manifesto, 1848

Karl Marx and Friedrich Engels were right. The Industrial Revolution's first wave, which began in England in the 18th century and spread to the Continent and the New World, brought textile mills, steam engines, and railroads. A second wave a century later produced electric power, chemicals, and the internal combustion engine. Next have come semiconductors, computers, and robots—and unprecedented standards of living that even developing countries are starting to share.

Through all this progress, the core institution has remained the factory, a complex combination of capital, labor, technology, management—and change. The factory has evolved gradually but relentlessly. In fits and starts, clusters of innovations led to ever-greater efficiencies. Accounting sys-

1771
An early textile factory in Cromford, Derbyshire. Richard Arkwright's mill got its power from the river and much of its labor from children

BOTTOM MARY EVANS PICTURE LIBRARY



1889
The latest industrial machinery got top billing at the Exposition Universelle in Paris

tems and statistical controls appeared. So did research and development. And tireless machines.

These advances reshaped the social landscape. Cities swelled with the ranks of industrial workers. Factories flooded the world with goods, unleashing conspicuous consumption, pollution, and disputes over the division of wealth. Laborers formed unions to get their share. The great clash of communism vs. capitalism had its origins in differing expectations of who would gain from factory work, a debate emphatically answered when rising productivity turned the impoverishment of the proletariat into the rich rewards of blue-collar work.

Today, the factory is still a fount of innovation. And in a sense, it's coming full circle—as it gets smaller, more flexible, and more responsive to customers.

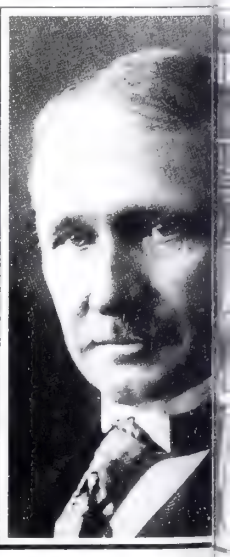
WHOEVER SAYS INDUSTRIAL REVOLUTION SAYS COTTON.

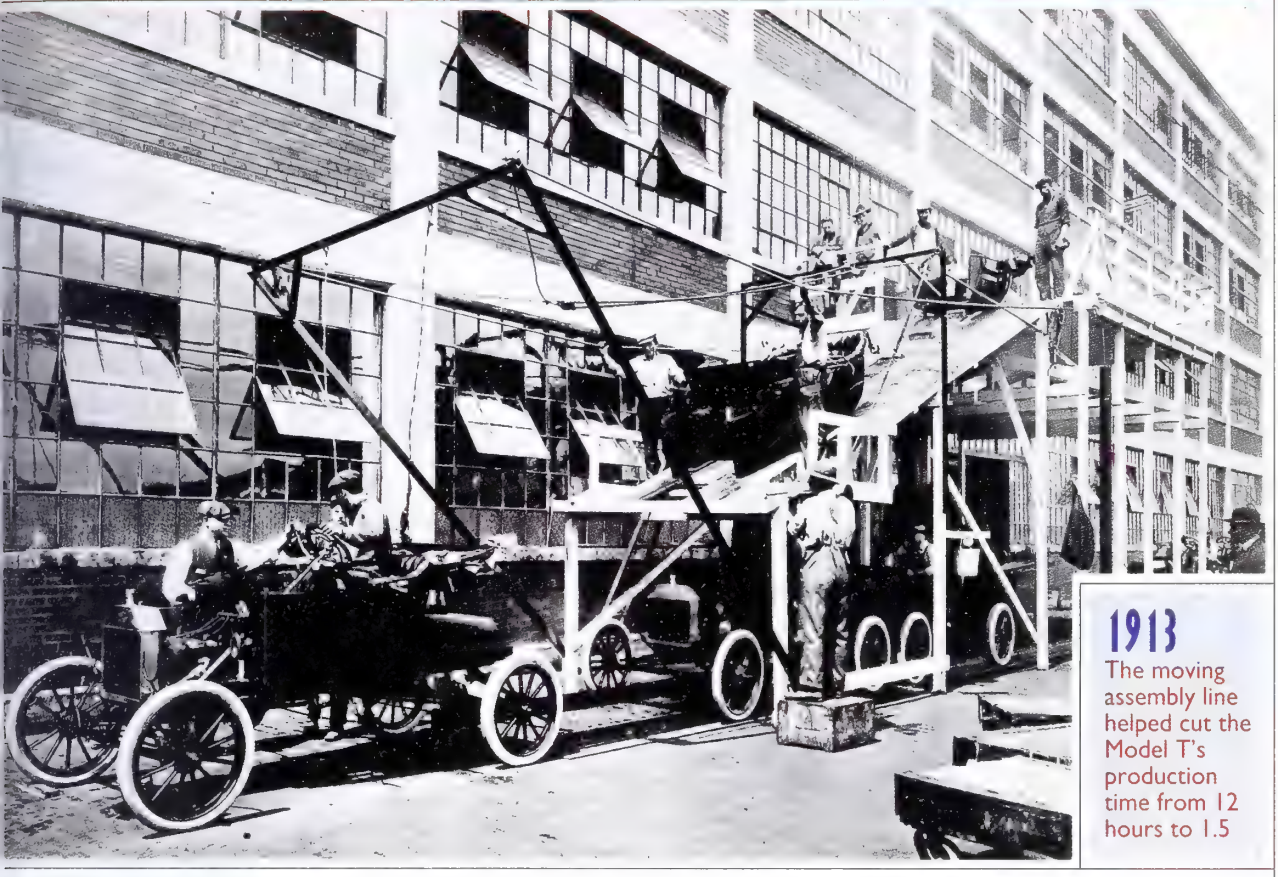
Industry and Empire
E.J. HOBSBAWM

For a brief moment in time, Britain was the world's workshop. And the first industry to be organized along factory lines was textiles—since "a mass market for textiles existed," much of it overseas, says William Lazonick, an economist at Barnard College.

Before factories, the home or small shop was the typical English workplace. Merchants bought raw materials and "put them out" to craftsmen to make into clothing or shoes. It was a series of inventions, such as spinning jennies and water frames, that made textile factories practical. Richard Arkwright built one of the first in 1771 at Cromford in Derbyshire, a yarn-spinning mill powered by a water wheel and staffed mostly by children. Soon, smoky, steam-driven factories dominated Manchester and other British textile towns. English blueprints reached the New World when Samuel Slater, an Arkwright employee, illegally emigrated in 1789. Soon after he built America's first textile factory, a 2½-story mill powered by the Blackstone River in Pawtucket, R. I.

The giant mill in Waltham, Mass., built in 1814 by Francis Cabot Lowell with backing from Boston merchants, marked an evolution in factory knowledge. Lowell's main innovation was organization: The Waltham factory gathered under one roof all the textile





1913
The moving assembly line helped cut the Model T's production time from 12 hours to 1.5

ing processes, from spinning to ving, and focused on closely coordi- ng the production flow to achieve natic increases in speed and output. ell later founded the town of Low- Mass.

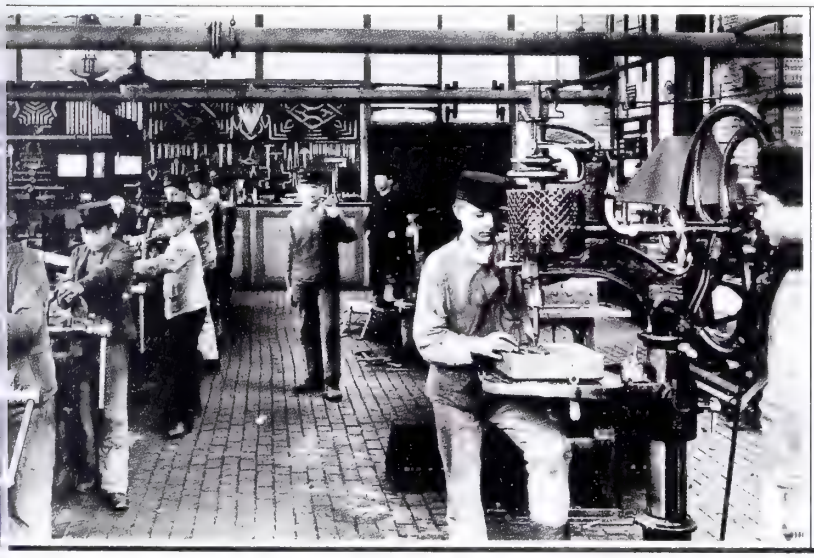
HE UNITED STATES THE GREATEST 'STRIAL UNDERTAKINGS ARE EXECUT- VITHOUT TROUBLE BECAUSE THE LE POPULATION IS ENGAGED IN 'STRY....

Democracy in America
ALEXIS DE TOCQUEVILLE

At the 1851 Crystal Palace Exhibition in London, America's industrial pioneers showcased their wares, including the McCormick reaper and the Colt revolver. These were the output of a new approach called the American System of Manufacturing. Its defining principle was using specialized machinery set up sequentially to make interchangeable parts—and create uniform products for a mass market. "Modern manufacturing is unthinkable without interchangeable parts," says Joel Mokyr, economic historian at Northwestern University.

Such manufacturing had been a dream of the 18th century French military, and the idea was eagerly embraced by President Thomas Jefferson. By the 1840s, U. S. gunmakers had made considerable progress, and their knowledge gradually spread to other American industries. "When a manufacturer wanted to produce goods in volume, he hired people from the [military] armories or one of the private gun contractors like Colt," says David Hounskill, historian at Carnegie Mellon University.

The U. S. system was a product of both New World ingenuity and the interplay of capital and labor, the traditional factors of production in economics. In the U. S., labor was in shorter supply than in Europe and wages, therefore, were comparatively high. The lure of the West also ensured rapid employee turnover. Costly, unreliable labor gave U. S. manufacturers a powerful reason to invest in labor-saving ma-

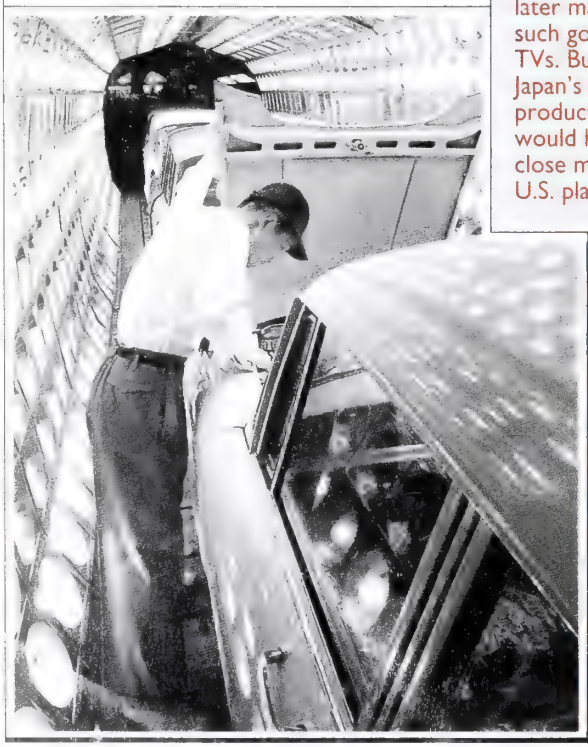


1890s
Pipefitters at a DuPont factory (left). F.W. Taylor, who advocated breaking every task into its simplest units. Germany's Bayer, which pioneered systematic corporate research

TOP: COURTESY OF THE EASTMAN KODAK ARCHIVE; COURTESY OF BAYER

40s–60s

War drew American women to factories, where they later made such goods as TVs. But Japan's lean production would help close many U.S. plants



ery, says Lazonick. By contrast, he
, British managers enjoyed a
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HE PAST, THE MAN HAS BEEN FIRST;
HE FUTURE THE SYSTEM MUST BE
T.
he Principles of Scientific Management
FREDERICK W. TAYLOR

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s of speed," according to Alfred D.
ıdler Jr., business historian at Har-
business school. In modern produc-
it was higher levels of throughput
let companies raise productivity and
r costs. And boosting velocity took
machinery, better materials, and
ideas for managing.
ıdrew Carnegie, a pioneer in all
e, transformed American steel into
olossus of the manufacturing world
een 1870 and 1900. He integrated
ragmented steelmaking process and constantly worked at running his equipment and employees full-out. His general manager, William Shinn, developed the statistical data needed to coordinate and control fast production. It cost Carnegie $56 to make his first ton of steel, a figure that dropped to $11.50 by 1900. His prices were lower and profits higher than any competitor's.

By the early 1900s, America's most famous apostle of efficiency was Frederick W. Taylor. His "scientific" management principles for organizing factories broke every task into its simplest element and timed each to find the most economical way of doing it. Despite strong worker resistance, Taylor's methods for managing labor took deep root in the nation's factories—and his ideas helped remove worker initiative from the plant floor.

The great manufacturing innovation of the time was Henry Ford's factory system: mass production. It was the culmination of many earlier efforts, from interchangeable parts in the American System to the moving "disassembly" lines of the meat-packing industry. In mass production, workers did the same task over and over—and so did machines. The results were spectacular. Once the moving assembly line was installed in 1913 at Ford's Highland Park (Mich.) plant, assembly time for a Model T dropped from 12 hours 8 minutes to 2 hours 35 minutes. A year later, the plant was making 1,000 cars a day, and assembly time per car was 1 hour 33 minutes.

Mass production got a boost from the diffusion of electric power. In the first three decades of the 20th century, the price of electricity fell, and use of electric motors shot up. At the turn of the century, they accounted for only 5% of installed horsepower in the U. S. By 1930, that had risen to 80%.

Germany also took a leading role in advancing the industries of the second industrial revolution, such as metal making and heavy machinery. But Germany's most lasting contribution came from its synthetic dye makers, particularly Bayer Co., which in the late 19th century established R&D as a continuous company function and a separate department. This corporate union of science and business would free companies from relying on idiosyncratic geniuses such as Nikola Tesla and ensure a steadier flow of new products for heavily capitalized factories. In many industries, corporate profits came to rely on putting scientists, equipment, and money to work in systematic research projects.

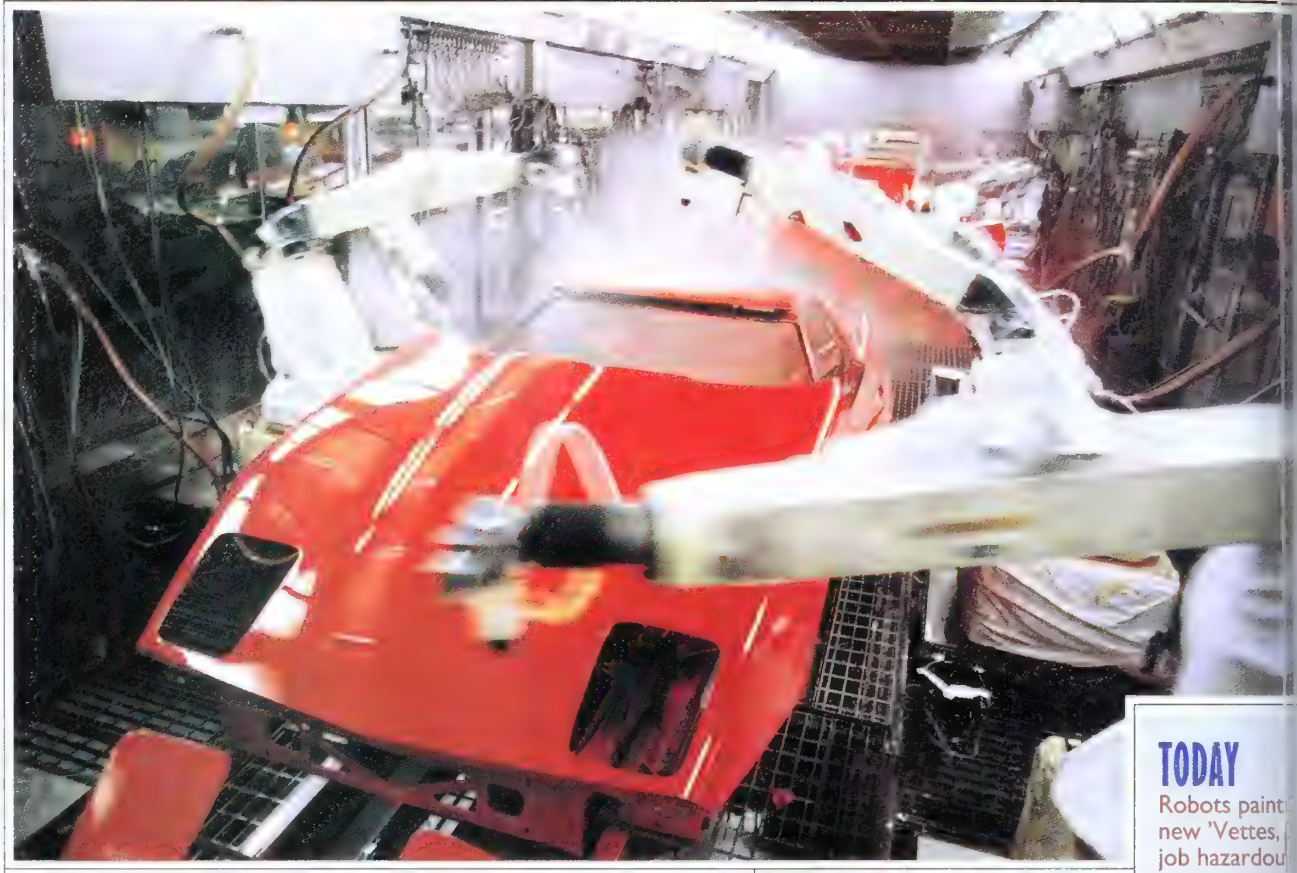
FOR YEARS I THOUGHT WHAT WAS GOOD FOR OUR COUNTRY WAS GOOD FOR GENERAL MOTORS, AND VICE VERSA.
CHARLES E. WILSON, GM CEO

World War II was mass production's crowning moment. One key to victory was America's unparalleled knowhow at coordinating capital equipment and labor to produce huge quantities of standardized products. Many of these were produced by women, as the number of employed females rose from 11 million in 1940 to 19.5 million in 1945.

After the war, U. S. manufacturers had no real economic rivals. Flush with success, and swamped by growing demand for cars, refrigerators, and televisions, U. S. factory managers focused on pro-

1990s
Chips are now made in Indonesia and other Third World nations

GREG GIRARD/CONTACT



TODAY
Robots paint new 'Vettes, a job hazardous to humans. A Nucor steel plant is more efficient than older mills

ducing as much as they could as quickly as possible with scant regard to quality. The tactic paid huge dividends in a world of war-ravaged competitors and eager consumers. Eventually, haste made waste, and inefficiencies crept in.

That spelled opportunity for a new factory system, called lean production, that emerged in postwar Japan. By the late 1970s, Japanese manufacturers were battering their U. S. rivals.

Toyota Motor Co. pioneered lean production, using a blend of U. S. and Japanese ideas. The central one was the just-in-time inventory control system, which used statistical quality control techniques to quickly pinpoint trouble spots. Workers exercised a degree of responsibility unheard-of in U. S. factories. The result was a high-quality, low-cost car, and, as the method spread to other Japanese manufacturers, competitive lathes and TVs. The U. S. also faced new competition from developing countries, as the modern factory spread from Taiwan to Mexico.

MOST MANUFACTURING PEOPLE IN THE UNITED STATES NOW KNOW WE NEED A NEW THEORY OF MANUFACTURING. WE KNOW THAT PATCHING UP OLD THEORIES HAS NOT WORKED AND THAT FURTHER PATCHING WILL ONLY PUSH US FURTHER BEHIND.

PETER DRUCKER

For a spell, U. S. manufacturers responded by pouring billions into automation or setting up plants in low-wage countries. But both tactics had their limits. Now, manufacturers in the U. S. and Europe are emulating the highly productive Japanese system with its emphasis on just-in-time, quality control, and multiskilled workers.

Indeed, manufacturers are reengineering work in ways that could lead to a factory that's more responsive to the demands of their customers. This new factory requires close links between management and employee, producer and supplier, company and customer. Already, new accounting methods are knitting together factory production and corporate strategy. Production runs and plant size are shrinking. Machines on the assembly line are being built for flexibility. Power is moving away from managers and into the hands of workers. All of these changes are made possible by the explosive growth in information technologies.

So the factory is still evolving, mo than 200 years after the new system production emerged during England Industrial Revolution. Like the Amer can System of Manufacturing, mass pr duction, and lean production before the factory of the Information Age w reshape living standards and transfor the quality of life.

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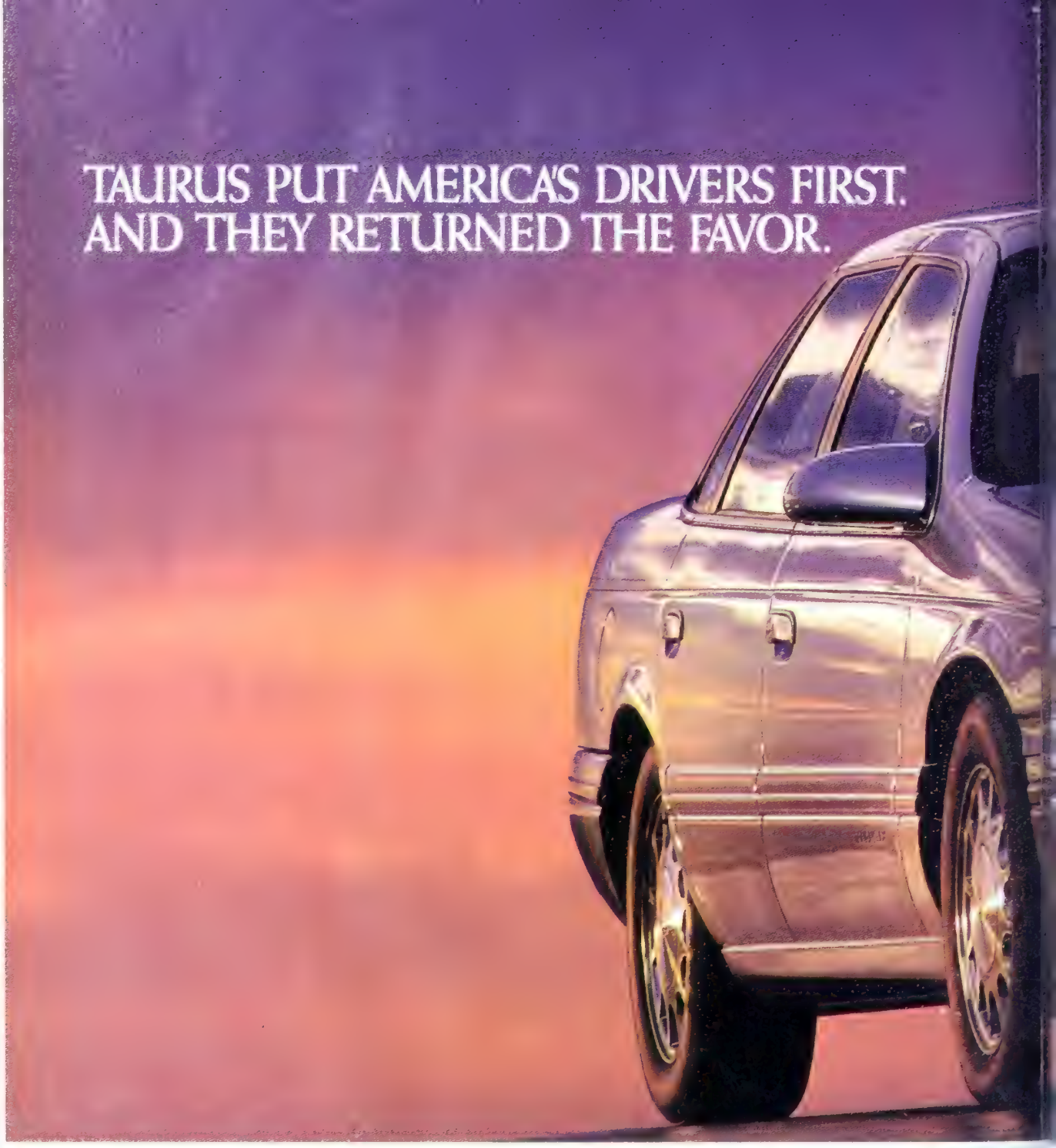

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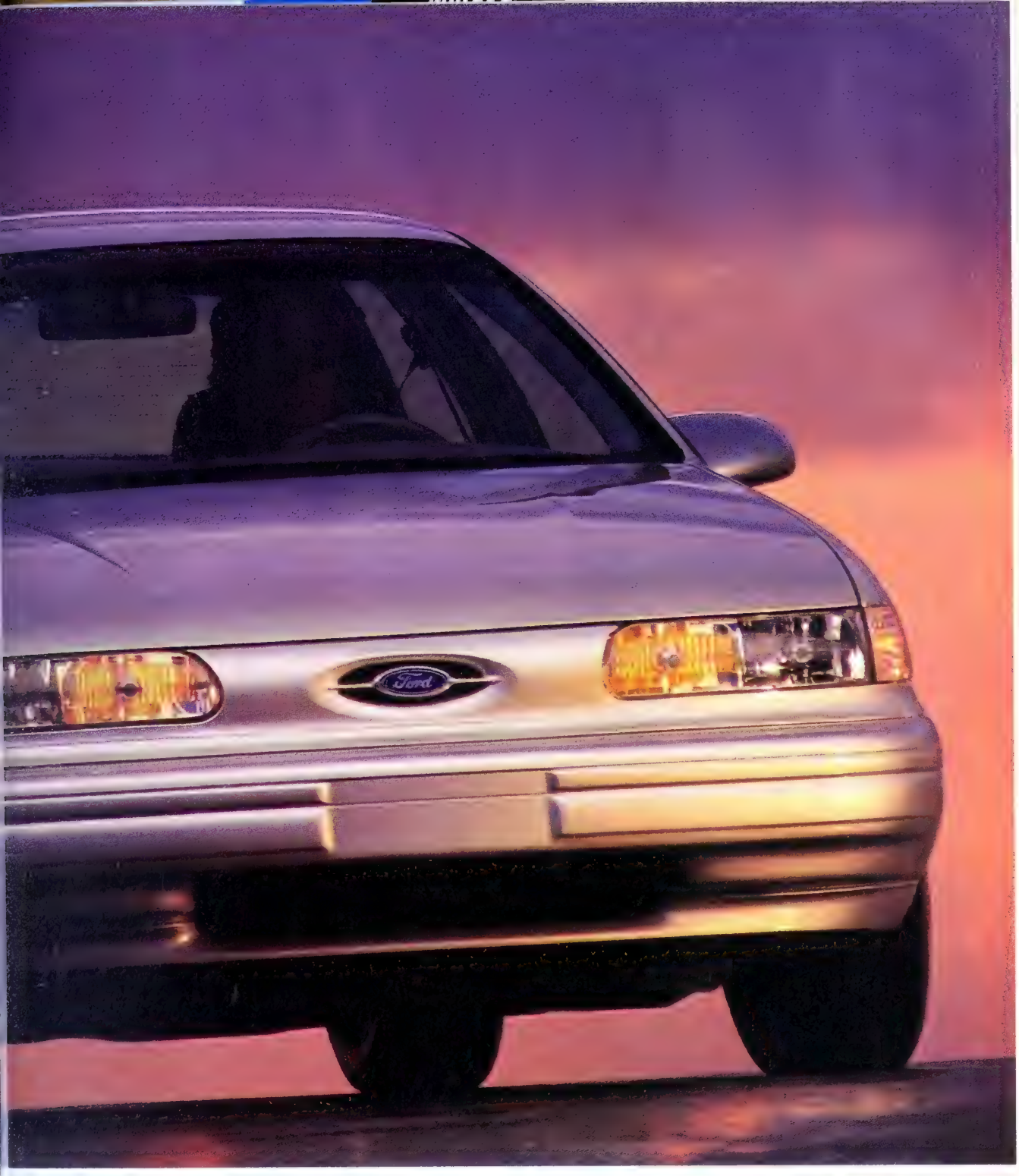

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HAVE YOU DRIVEN A FORD LATELY?

Ford

SMALL IS POWERFU

68 OVERVIEW
MEET THE GIANT-KILLERS
How do small companies power the economy? By fostering "creative destruction." That means hunting down behemoths that can't adjust to the pace of innovation

76 TRANSITIONS
WHEN THE SHACKLES COME OFF
In two very different societies—Russia and Chile—entrepreneurs are turning ever more resourceful as they navigate tricky waters

84 CLOSE-UP
THE WILD RIDE OF MIKE WAYNE
A classic story: Seized by the entrepreneurial spirit, an IBM manager risks all to pursue his dream of business glory—only to be led astray by his own enthusiasm

96 FINANCE
THE FLOODGATES INCH OPEN
Welcome to the brave new world of small-business lending. Make no mistake, money is still tight–but it can be found

98-D FINANCE
LENDERS TO THE SMALL FRY
They're called microlenders, and they help companies that most banks would just as soon ignore

98-H FINANCE
A FRIENDLY PLACE: WALL STREET
The blazing IPO market of the past year or so has been a godsend for many small companies

SAM WALTON: FROM FIVE-AND-DIME MANAGER TO RETAIL REVOLUTIONARY

drive and agility of the entrepreneur can
the world upside down, whether by
rhauling an industry or building a new one

MEET THE GIANT-KILLERS

How do small companies power the economy? By fostering "creative destruction"

BY HOWARD GLECKMAN

For 150 years, Marxist canon predicted that the first step on the road to the great proletarian revolution would be the destruction of small businesses by their larger competitors. Today, one of communism's last disciples, Cuban President Fidel Castro, has a far different view. He's opening up 100 trades and services—from computer programming to hairdressing—to individual enterprise. Fidel, it seems, is betting that small business can dig him out of the rubble of his island's economy.

In his way, Castro is thrusting Cuba into the middle of one of today's hottest debates: Does small business hold the key to growth? Can an economy develop its full potential without the prodding and innovation of its entrepreneurs?

The issue is white-hot around the globe. In eastern Europe, small businesses are struggling to find their role in emerging capitalist economies. China is grappling with the paradox of freeing its people's entrepreneurial spirit while crushing democracy. Latin American nations are trying to adapt enterprise to their near-feudal economies. And in the U.S., economists argue over how many jobs small businesses create while politicians squabble over whether to give small firms special incentives.

A handful of the hottest entrepreneurial outfits—5% or so—probably do create a big chunk of the jobs in the U.S. At the same time, the bulk of the nation's 6 million small companies live a more modest existence. The majority die within a few years. The bulk of the survivors provide little more than a decent income for their owners and a living wage for a handful of employees.

But quarrels over direct job-creation miss the point. The real value of entrepreneurial companies may be the way they force larger competitors to respond to innovation, from new technology to new markets. That process, which Austrian economist Joseph Schumpeter aptly dubbed "creative destruction," is not pretty, but it may be necessary for a thriving capitalist system. "Creating jobs is a pillar of a modern economy," says Zoltan Acs, an economist at the University of Baltimore. "But the other pillar is the role of innovation and technological change. Small firms have become a driving force in that change."

In the U.S., the role of small businesses has waxed and waned. In the earliest days, entrepreneurs launched an industrial revolution. Eli Whitney helped lay the groundwork for mass production by developing early machine tools and designing a way to produce guns from interchangeable parts. By the dawn of the 20th century, the trusts dominated the U.S. economy. But entrepreneurs still drove innovation. Consider George Westinghouse, who remade the industrial world by promoting alternating-current electricity, despite opposition from most of the business Establishment.

The U.S. economy is now in the midst of another dramatic transition. From World War II to the early 1980s, the credo was: "Bigger is better." Economists from Adam Smith to Karl Marx had trumpeted the power of size. Managers strove for economies of scale—whether they were building nuclear power plants or corporate conglomerate Small companies just didn't matter.

In some capital-intensive industrie such as telecommunications and aircra manufacturing, size may still be impo tant. But for much of the economy, th conventional wisdom no longer hold The leveraged buyouts of the 198(went a long way toward busting u many of the biggest conglomerates. Ne technology enabled startups to bypa the 60-year-old industrial processes bu dening older rivals. Global competitio exposed the weakness of many indu trial giants.

Small companies are hardly immun

siness cycles. In the past few years, sands of them succumbed to the crunch and a sharp decline in con- tion. But while big companies are truggling with painful downsizing, resilient smaller outfits are riding atic long-term trends.

day, bulk seems to be losing out to y and speed. "There is a tremen- gap in the speed of product devel- nt," says Larry Prusak, a special- business communications at Ernst ung. "In big firms, you have to get iness plan, then you have to do a et. But if you have 50 people, you rder 10 pizzas, figure out what you have to do, and come back in two weeks with a decision."

Sam Walton, a five-and-dime manager from Arkansas, changed the very nature of retailing. Big steel was chased from the structural steel business by a horde of domestic minimills. "The basic structure of our economy is undergoing constant change," says Bruce Kirchoff, professor of entrepreneurship at New Jersey Institute of Technology. "And it's initiated by new business formation and growth."

That dynamism has spawned a virtual cult of the entrepreneur. Bookstores are awash with titles on how to start a business. Corporate refugees are thinking small. Big companies are scrambling to remake themselves in the image of the entrepreneur. And college kids, who may once have aspired to life in the corner office, now have other goals. Says small-business consultant David Birch: "There is a whole world of 24-year-olds who never dreamed of going to work for a big company."

Nowhere is the revolutionary potential of entrepreneurism more evident than in steel. In 1960, the industry was dominated by a handful of big producers. Minimills—small outfits that make steel by melting scrap in electric furnaces—had a puny 2% market share. Today, they account for nearly one-third of finished steel shipments.

Aggressive companies such as Nucor Corp. did not invent the minimill, but they married technology to marketing skill and management innovations such as performance-based pay. Today, many are more productive than either integrated U.S. companies or foreign mills.

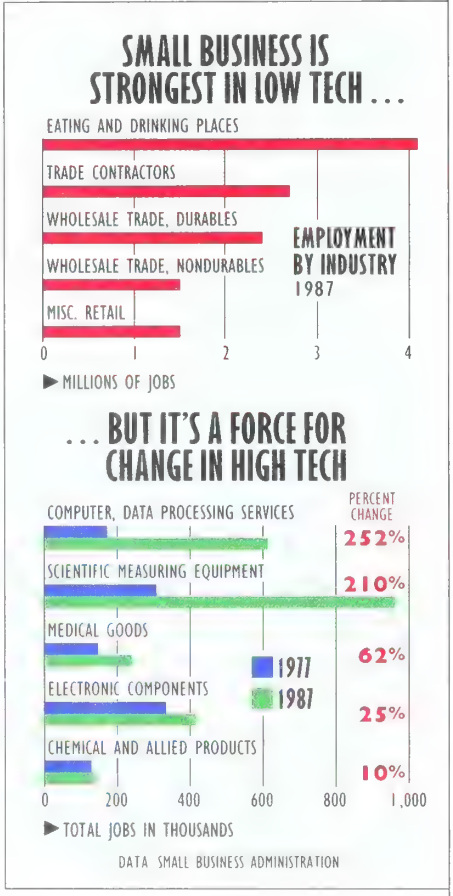
Minimills broke the monopoly of Big Steel. And they may have saved the U.S. steel industry. Says Christopher Plummer, director of steel analysis at Resources Strategies Inc.: "Technological change driven by minimills has been the primary factor of change in the steel industry."

And there may be still more innovations from a new generation of upstarts. In recent years, Nucor has had great success making high-quality flat rolled steel at its plant in Crawfordsville, Ind. In August, plant manager Keith Busse left the company to form a startup minimill of his own. "Nucor is pretty darn awfully efficient," says Busse. But "you might improve it 10%. There are new forms of technology which haven't been employed by Nucor."

Entrepreneurs can overhaul an existing industry or build a new one. Back in the early 1980s, a few upstarts such as Apple Computer Inc. and Osborne Computer Co. believed they could put a PC in every home and office in America. At the time, they were ridiculed by the mainframe makers who dominated the industry.

And what of those behemoths today? Most have been supplanted by outfits that didn't even exist a decade ago. In 1982, Michael Dell was in high school, and only the nerdiest gearhead would think of buying a computer through the mail. Today, Dell Computer Corp. alone is selling $2 billion worth of mail-order hardware and has more than 4,000 employees. With its low overhead, Dell could offer bargain prices. But it also offered good service, which many other mail-order operations lacked. More important, dozens of companies like Dell's have made PCs virtual commodities, available to nearly everyone who wants them. That alone has profoundly changed the U.S. economy.

Computer software has follwed almost the same script. In 1980, most of the biggest software producers were mainframe outfits, names from the dim past such as Burroughs and NCR. Since then, the software business has exploded. But



om Rapsas couldn't wait to get up this morning. He'd been talking ut the hike to the top of Big Pines with dad every night over dinner for the t two weeks. And finally the day had ved. They pulled on their hiking boots, efully packed the sapling, and headed he trail until they found the perfect t. As Tom planted his frail, little tree, earned a lesson he'll remember the of his life. He learned that every action, natter how seemingly small, has an

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the old guard has been left behind by newcomers such as Novell Inc. and Computer Associates International, Inc. How rapid has change been? Well, in 1980, Microsoft had all of 125 employees. Today it can boast 12,000. "The whole computer business has been turned upside down," says Kirchoff, "and it's been because of innovations brought into the marketplace by new small firms."

High tech gets all the glamour, but enterprise also is changing much more mundane industries. Small lumber mills, for instance, are developing a powerful presence in exports, a market largely ignored by bigger companies. "There are phenomenal success stories," says University of Washington economist Anne Illinitch. "You drive into the backwoods of nowhere, and there are companies doing 100% of their business with Germany or Spain."

Even in banking, where established institutions are feverishly merging their way into new markets, entrepreneurs continue to find important niches. Consider Steven Kaplan of Woodbridge, N. J., who fills the role of the old-time local banker for restaurants, lending money, providing advice, and making connections with suppliers. After being laid off from a management job at CBS in 1986, he went to work for Transmedia Inc., one of BUSINESS WEEK's hot-growth companies over the past two years. In 1990, Kaplan bought the company's first franchise.

Many banks avoid restaurants as too risky, but Kaplan has found them to be a lucrative niche. In 1990, he lent about $100,000 to 40 restaurants in New Jersey. This year, he'll lend more than $2 million to more than 150 establishments, using a system that allows restaurants to pay off their loans with food and beverage credits. Transmedia then resells these meals at a discount to consumers who purchase a Transmedia restaurant card. Kaplan, who has only one salesperson, won't show up in government statistics as a big job-creator, but he, along with Transmedia franchisees in 14 other states, provides financing for thousands of other small businesses.

How do the upstarts do it? In part, it's because the big, bureaucratic dinosaurs are slow to adapt to change. "The success of small business reflects the failure of big companies," says Richard Florida, director of the Center for Economic Development at Carnegie Mellon University.

At the same time, entrepreneurs have some powerful economic trends in their favor. The labor force is highly mobile. Capital is available, although more often from Uncle Harry than from a bank. PCs and faxes have sharply reduced the cost of entry—an individual can start a small service business for under $20,000. Consumer demand for well-made, specialized products has reduced the advantages of big, assembly-line factories. Add to all that one big cultural factor—in the U. S., as in few other nations, risk is a virtue and failure can be overcome.

"If you fail in the U. S.," says Florida, "you have the opportunity to try again."

But why do some startups make it while others flop? Paul Reynolds, professor of entrepreneurial studies at Marquette University, looked at 1,400 new companies in Pennsylvania and Minnesota and found 27 "high performers" that grew at an average annual rate of 150% for at least five years.

His study confirms some suspicions—and explodes a few myths. One key finding: Small business creates lots of jobs, all right, but most of them in just a handful of companies. Reynolds found that the most successful were in manufacturing and wholesale trade. Only one was in high tech. While use of technology and price were important to the fortunes of the best new companies, quality of goods and services was even more critical. And he found that the most successful startups were formed by teams—often refugees from established companies—who focused on financial controls.

Reynolds couldn't find many tinkerers who built better mousetraps in the garages. Instead, he paints a picture veteran entrepreneurs who grab an o portunity and run with it. "The maj distinction is time," he says. "These h pergrowth firms put their businesses t gether faster than anybody else."

Perhaps the biggest threat to that kin of aggressive entrepreneur comes fro another recent trend in the U. S. econ omy—the move toward outsourcing. Many big companies, such as General Electric Co. and DuPont Co. recently have been forming extremely close relationships with small suppliers.

Those Japanese-like arrangements generate a steady source of income for the small firms and improve productivity. But they may also drain the smaller partners of the entrepreneurial spirit that made them successful in the first place.

Yet the entrepreneur of legend r mains a powerful force. In a separa study, Reynolds found that at any gi en time, 4% of the adult population Wisconsin is trying to start a small bu ness, 80% of them while working fu time at another job. Why not dream t dreams of George Eastman, who inver ed his Kodak camera in his off hou while working as a Rochester (N.Y bank clerk? Or of Jack Daniel, who 14 bought a still from his boss—the lo

iller and Lutheran minister. Daniel only made good whiskey but also ized the importance of moving to railroad town of Lynchburg, Tenn., where he could ship throughout the South. By the turn of the century, Daniel had built

ERICA IS ONE OF THE W COUNTRIES IN THE RLD WHERE RISK IS A :TUE AND FAILURE ISN'T :AL. FROM LEFT, A LLERY OF DAREDEVILS: :K DANIEL, GEORGE STINGHOUSE, GEORGE STMAN, SAM WALTON

tional market for what had tradition- been a local product. creasingly, hitting the entrepreneu- ackpot is a vision for people around world. But will small business reform in newly capitalist coun- ? John E. Jackson, a professor usiness administration at the versity of Michigan, thinks it d.

ckson looked at Michigan nesses from 1978 to 1988, riod of great transition in state. Michigan lost a gering 200,000 auto manu- uring jobs but saw a boomlet onauto manufacturing and ser- s. Jackson found that in 1978, of all manufacturing jobs were ompanies with more than employees. He estimates share today is less than . "The resurgence of small business is a key factor in the resurgence of the Michigan economy," Jackson says.

These days, Jackson is doing his research in Poland, and he sees some surprising similarities. There, old state factories are having a terrible time raising capital, while small companies—retailers, business services, and factories—are showing real vibrancy.

No doubt Eastern Europe is fascinated by Western-style small business. But there are real differences between U.S. startups and their Western European or Japanese counterparts. Small Japanese companies seem to be thriving, but most serve as little more than suppliers to dominant big companies. In Italy and France, small outfits are also doing fine, supported by heavy state subsidies. But something seems to be missing: the entrepreneurial innovation that defines the best of the U.S. small companies. Could a Microsoft in Paris challenge Groupe Bull? Not likely.

It might have a better chance in Hong Kong, where freewheeling entrepreneurs are a dynamic force for change. Germany seems to have found a middle ground. There, 300,000 small and midsize companies generate a big chunk of the nation's export growth. Some see them as a model for small business in Eastern Europe.

There seems little doubt that entrepreneurs will play a key role in the world's emerging economies. But will they follow the heavily subsidized yet less innovative French model? Or will they try to copy the U.S.? And entrepreneurs in the U.S. have some questions of their own to answer. Should they push for special tax breaks, along with government technical and financial assistance? Or are they better off left alone? After all, the keys to success for U.S. entrepreneurs seem to lie more with free-flowing capital and flexible labor markets rather than state subsidies.

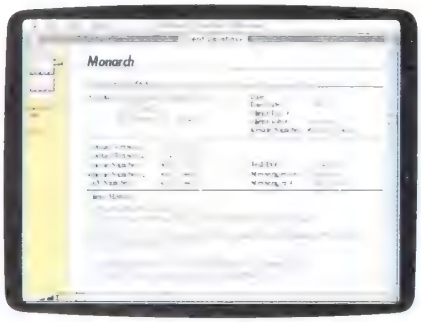
Consultant Birch has called the best of these dynamic companies "gazelles." But he may have picked the wrong animal. The critical role of entrepreneurs may be more akin to wolves: aggressive and skilled at culling out the old and sick. That's the creative destruction that Schumpeter talked about, and it may be the real story of how the best small companies drive change in a healthy economy.

With Stephen Baker in Pittsburgh and Jonathan B. Levine in Paris

(RIGHT) UPI; BETTMANN; PHOTO TINTING BY ALAN BOMZER/BW

Who are you going to have to be today?

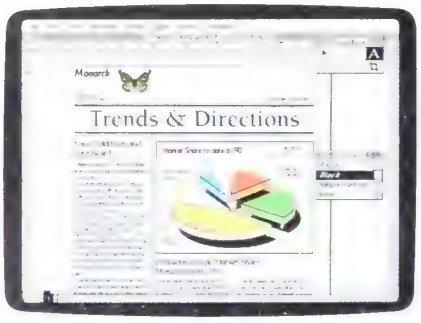
Sales Manager?



Customer Representative?

Office Manager?

Marketing Director?



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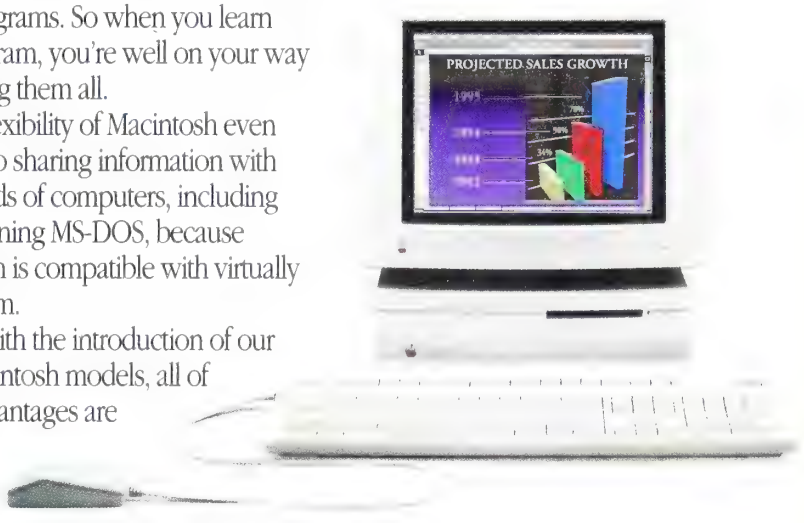

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manages a small business, you know there's no such thing as a free lunch, right? Well, not in this case. We just can't resist giving a plug to the great software packages that were used to create the screens shown here t, starting at the top, they are: Microsoft Excel from Microsoft, FileMaker Pro and MacWrite II, both from Claris, WingZ from Informix, PageMaker from Aldus, Components from Saton, and shown above, Persuasion from

WHEN THE SHACKLES COME OFF

How new capitalists are sailing tricky waters in two very different societies

RUSSIA

HURDLES INCLUDE PUBLIC DISDAIN, RED TAPE, HIT MEN

Deep in a forest outside Moscow, a sprawling pink mansion is in the midst of renovation. Workers are refurbishing all the rooms, including putting Italian marble on the bathroom walls. The dacha was once the weekend hideaway of such Communist leaders as Leonid Brezhnev and Andrei Gromyko. In October, it will become the headquarters of Arter Group, a company with 2,000 employees and interests ranging from mining and energy to banking and real estate. The owner of the company and the house is one Andrey Chuguyevsky, a skinny, 35-year-old former history teacher who is today one of Russia's most successful entrepreneurs.

In the chaos following the collapse of the Soviet empire, *biznezmen* such as Chuguyevsky are spawning hundreds of companies, a commercial banking system, and thousands of retail stores that provide decent goods to long-starved consumers. Just a few years ago, such activity was illegal. Some, including Chuguyevsky, got prison sentences.

Not that it's any picnic today. Entrepreneurs face huge taxes, shakedowns from government regulators, and—occasionally—murder from hit men hired by competitors. Instead of being admired as bold Horatio Algers, they are generally reviled by a public struggling along on low, fixed salaries while inflation rages at 30% a month.

Yet many of Russia's young nouveaux riches are not entrepreneurs at all. They are merely traders scarfing up oil and metals and peddling them overseas for a quick buck. They have already provoked crackdowns by the Russian government and by the European Community, which has ordered sanctions against Russia for aluminum dumping. "What's important is that the entrepreneur actually produces something," says Sergei Olevsky, a Moscow scientist-turned-entrepreneur.

He and Chuguyevsky got their big breaks in the late 1980s, when Mikhail Gorbachev revived cooperatives, or small private businesses. A former microelectronics researcher, Olevsky started a cooperative in 1988 that made computer controls. Now, his empire includes three banks, a tourism company, clothing factories, and Tiana, a company that makes shampoo and cosmetics from natural ingredients. Today, Olevsky can easily afford tuition at the University of Pittsburgh for his son, who plans to major in economics. For entrepreneurs, education is critical, Olevsky believes: "We have fine mathematicians and physicists. But we need people who can understand business and economics."

There's plenty of irony, too, in Chuguyevsky's career path. Just 10 years ago, he was a history teacher in Chita, a region on the Chinese border. Future prospects seemed dim, so he and a partner looked elsewhere. When factory managers moaned about their primitive telephone systems, the men put together a team of moonlighting engineers to produce homemade switching sys-

BEFORE THE DACHA AND THE LIMO, CHUGUYEVSKY PAID SOME HEAVY DUES

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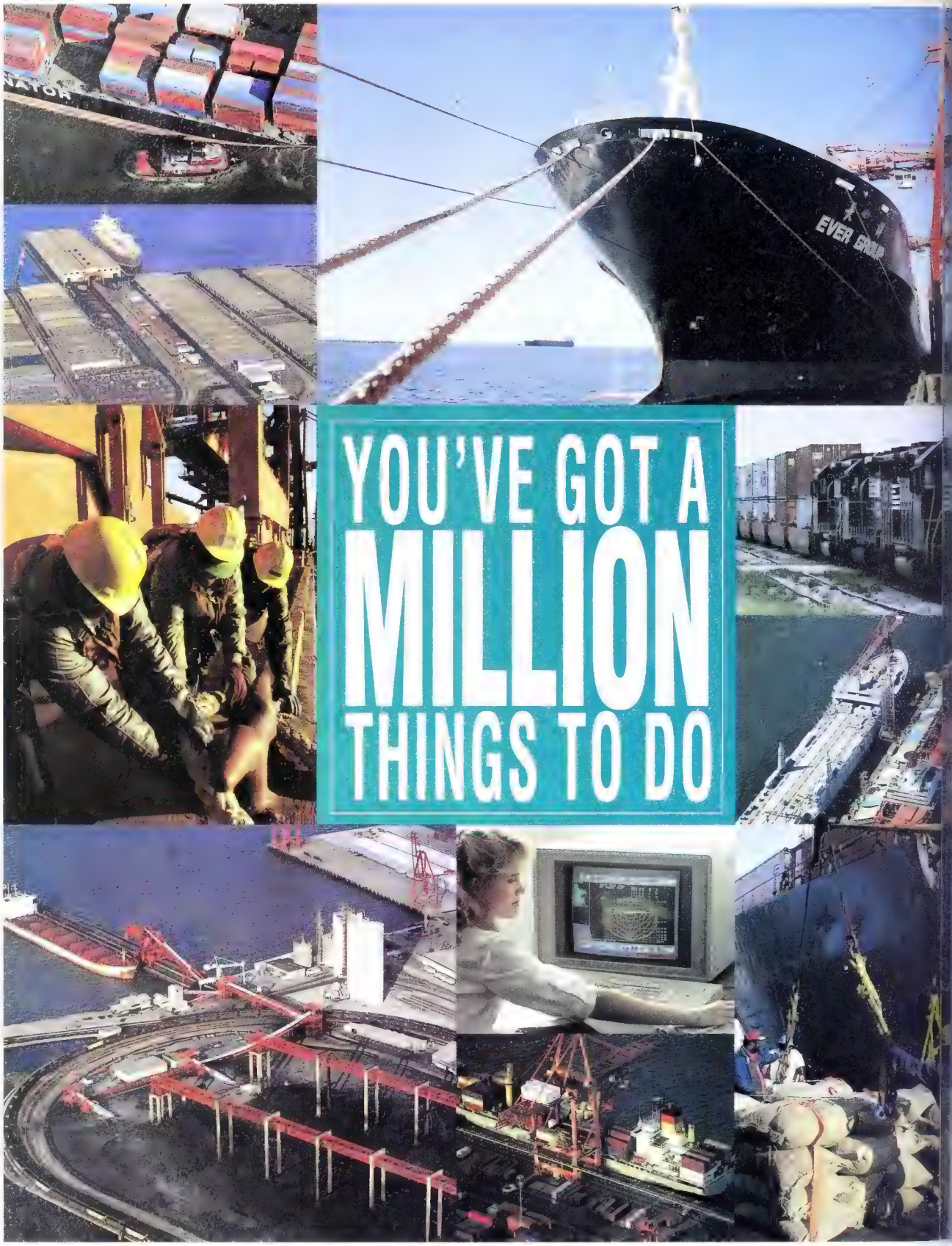

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tems. The switches sold like hotcakes. But they also attracted the attention of the police. "I asked the woman who arrested us what we were guilty of. She answered: 'The criminal code is big. We'll find something,'" says Chuguyevsky. He got a two-year sentence. His partner got five years.

When Chuguyevsky got out of jail, Gorbachev was just about to permit cooperatives. Chuguyevsky moved to Moscow and started selling personal computers made in Taiwan and Singapore. He dabbled for a while in trying to locate and market Russian technologies. Aside from some pollution-control devices his engineers developed for a Ukrainian oil refinery, the results were not promising. "I learned that we are one generation behind on applied research," says Chuguyevsky.

Today, Arter Group has holdings in banking and real estate—and plans projects in gold, coal, and timber. Perhaps, as in earlier capitalist societies, the wealth created through exploitation of natural resources will help spawn the technologically advanced industries the former Soviet Union needs to compete on a global scale. When—or if—that happens, it is likely to be entrepreneurs such as Chuguyevsky who lead the way

By Peter Galuszka in Moscow

CHILE ENTREPRENEURS ARE ONE KEY TO CHILE'S IMPRESSIVE GROWTH

THE PROBLEM? SMELLY SNEAKERS. THE SOLUTION? MANUEL MARQUEZ

The world's only scented children's footwear, Manuel Márquez believes, is turned out by his Calzados Dolphitos plant in Santiago. Brisk demand from kids and parents for the brightly colored shoes and sneakers, exuding such odors as strawberry, watermelon, and chocolate, pushed the 10-year-old company's sales to $14 million last year, up from $6 million in 1986 when Márquez launched his fragrant product line.

With a home market of only 14 million people, Márquez until recently got nearly half his revenues from exports. This year, handicapped by an overvalued peso, exports will fall to $3 million, down from $6.3 million in 1992. But Márquez, who started working in a shoe factory at age 16, has combined imaginative footwear with fast business footwork. Next month, a joint venture with Zaria, a privatized Russian shoemaker, will start producing his footwear in Moscow. "From there, we can break into the European market more easily, with cheaper freight and labor costs," Márquez says.

Márquez is one of thousands of entrepreneurs who are diversifying Chile's economy away from commodities such as copper and wood pulp into value-added products, from furniture to biotechnology. They have helped drive Chile's fast economic growth—an average 7% annual expansion of gross national product over the last five years. This year, Chileans are creating 20,000 companies, says Enrique Román, head of a government development agency—more than any South American country save Brazil, which is 10 times Chile's size.

Chile's two decades of free-market reforms have unshackled entrepreneurs. Bank credit is plentiful, fed by a high savings rate. And government credits and technical aid to startups will rise to $600 million this year, up from $300 million in 1992. "To sustain 6% growth, you need a steady stream of small and mid-size projects," Román says.

Startups still face some hurdles, from red tape to the lack of tax breaks for venture capital. But conditions for entrepreneurs were tougher 10 years ago when Márquez, now 49, decided to make shoes on his own after working for Canada's Bata Industries Ltd. in Chile, Canada, and Mexico. Facing a flood of cheap Asian imports, Márquez realized he had to make his shoes stand out in the market. Complaints of friends about their kids' smelly shoes led him to add scents.

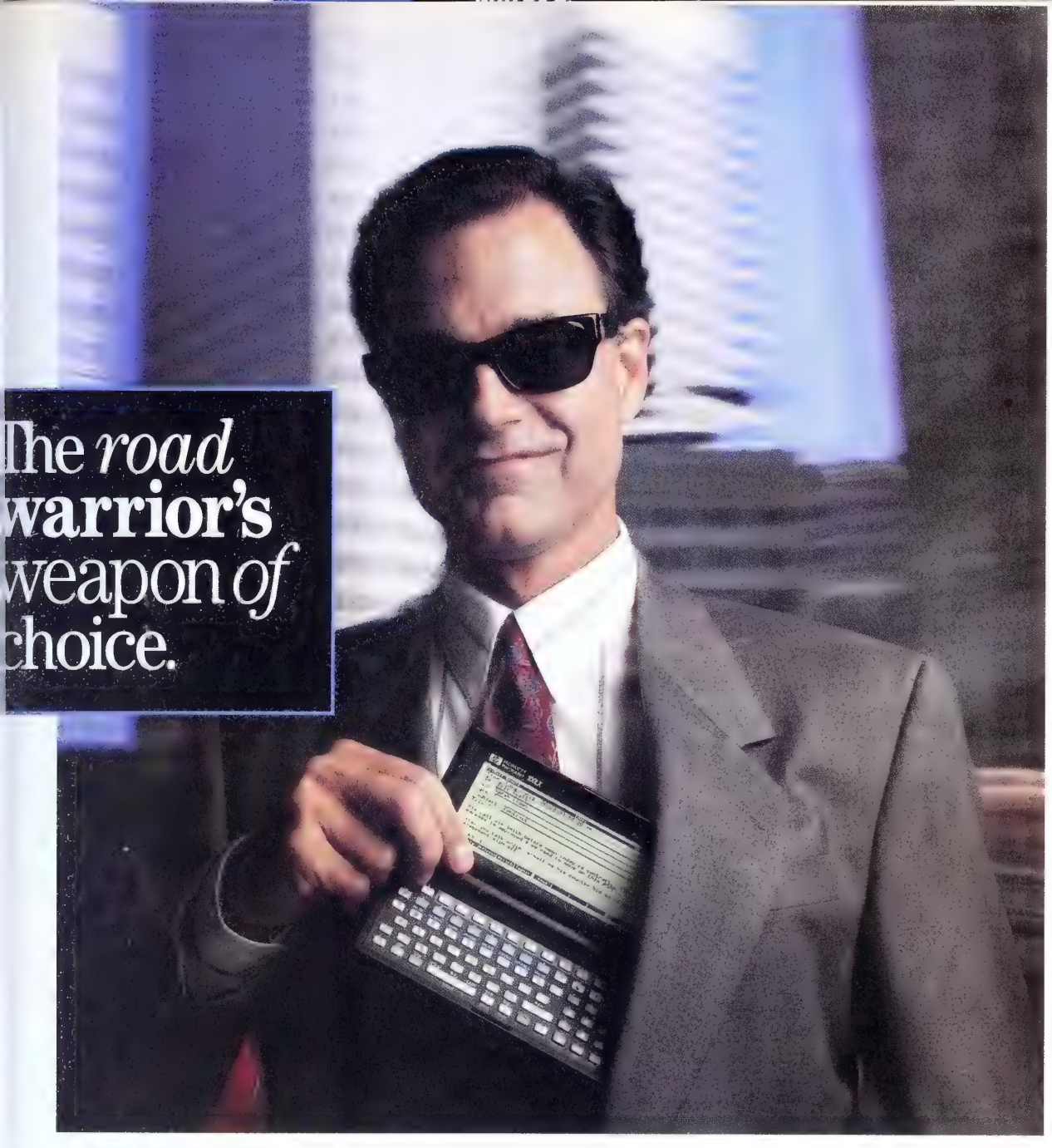
"There's a lot of people who think big," Márquez says. "I bring the ideas down to earth." To do so, he plows 5% of sales into research and developme "Other companies are always copyi our ideas, so we have to keep innov ing," Márquez says. His newest nic product, to be launched in October, v be shoes with lights that flash at ea step.

For quite a few Chilean enterpris the catalyst has been the nonprofit Ch Foundation (FC), set up in 1976 to h spur new ventures, partly by promoti technology transfers. It is funded equ ly by ITT Corp. and the governme which paid off ITT's prior claims for e propriated properties on condition th ITT plow the money back into the fou dation. A decade ago, FC helped laun two salmon farms using techniques fr the U. S. and Scandinavia. This ye dozens of Chilean fish farms will p duce 65,000 tons of salmon. And t aquaculture boom has spread to oth seafoods, from turbot to scallops.

"The foundation accelerated a proc that would have taken place anywa says FC General Director Anthony W lie. "Now, people are moving in t themselves. And they finally believe t technology in Chile can be profitabl A still-blossoming example is softwa This year, small companies will sell $ million worth of software abroad, from $1.5 million in 1991.

Small businesses will get a boost fr a law to be passed by Chile's Congr in October, allowing big privatized pe sion funds to invest 10% of their mon in venture-capital funds, up from 5% present. And the government propos to set up a one-stop agency to spe new ventures through the bureaucra maze. Such measures should help ke the engine of entrepreneurship drivi Chile's rapid growth.

By Alexandra Huneeus in Santia



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THE WILD RIDE OF MIKE WAYNE

A classic story: IBM manager risks all to pursue his dream of glory—only to be led astray by his own enthusiasm

BY KEITH H. HAMMONDS

Michael Wayne is starting again. From a leased office off the main drag in Troy, Mich., he is launching a chain of centers to treat chronic back pain. The operation is growing rapidly, and there is excitement in Wayne's voice. "I'm in the business of taking care of backs," he explains. "We're going to do well because I'll do all the backs in Michigan."

For 12 years, though, Wayne was in the business of truck-bed liners. He founded Durakon Industries Inc. and led it on a wild ride past $100 million in revenues. He made millions. He also made mistakes, some of which turned against Durakon when its markets weakened. Ultimately, Wayne resigned as CEO of his own company, then sold out.

Durakon's is a classic entrepreneurial saga: The young risk-taker who sees an opportunity. The product that clicks—and the intoxicating, exhausting growth that follows. The errors: misguided acquisitions, poor controls. The collapse. And the transition to professional management and relative stability.

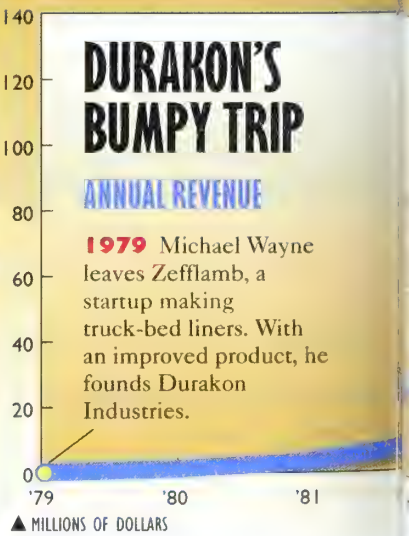
Mike Wayne was a star. It was 1977, and at age 32, he was a program manager for IBM selling office equipment to General Motors Corp. and pulling down $100,000 a year. He provided well for his wife, Kathy, and three young sons and basked in the prestige of Big Blu

"A lot of people thought I was cra to leave," recalls Wayne. But he had m two schoolteachers making plastic li ers to protect pickup-truck beds. Th needed a sales rep. Teachers? Truc beds? The infant startup didn't ev have a product brochure. But Way had been at IBM for 10 years and rea ized, as he puts it now, that "I was going to run that company." Zefflam the new outfit, seemed challengin sexy: It had an upside.

The relationship failed early o Wayne proved an adept marketer, ar sales grew quickly. But he clashed wi the company's business manager ov decision-making. "Both of them ha egos," says Robert Zeffero, one of Ze lamb's founders. When pressed to a cept a lower sales commission, Way resigned.

Good move. Wayne developed a ne product and a better manufacturing pr cess, and late in 1979 he founded D

MAKING LINERS FOR PICKUPS AT DURAKON'S PLANT IN CAPAC, MICH.



)n. He mortgaged his se for $50,000 and got dditional $100,000 loan ı the Small Business inistration. He found otor-home maker with sed plastic molding ca- ty and contracted with ailing company to make irst Duraliner.

his wasn't the best time e starting a business. : nation was in reces- and interest rates were ering at around 20%. the other hand, the ket was virtually wide ı: Durakon had only to 'e to the world that ole needed truck-bed 's.

ayne and his sales- ole hit the road. "We : in every trade show can imagine, every : fair, any opportunity we could ," says David Wright, an early sales cutive and still a board member. ne was living out of airports and ting with prospective distributors in any as three states in one day.

ıd the Duraliner was catching fire. akon posted nearly $1 million in : its first full year, and revenues hit million in the second. The compa- ook over a molding factory in Lap- Mich., north of Detroit and plunged manufacturing. "It was exhilarat- says Kathy Wayne, who helped out the office work. "It was intense, at the time, we were so into it we 't notice."

STARTING OVER: WAYNE IS NOW RUNNING CENTERS TO TREAT CHRONIC BACK PAIN

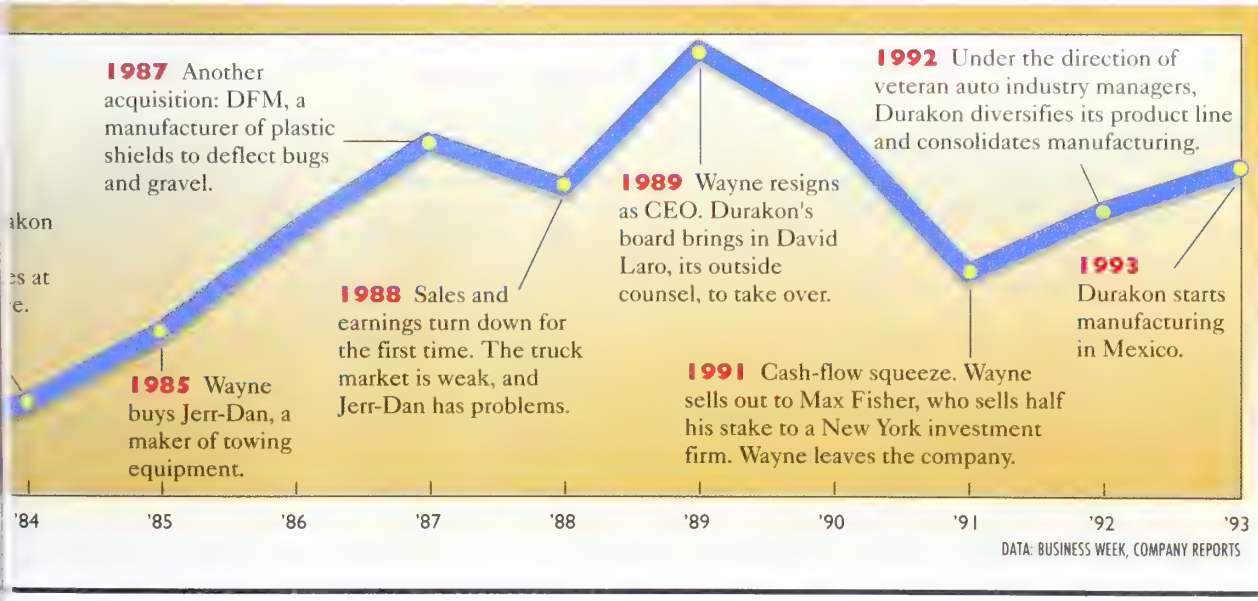
The entrepreneurial spirit enveloped Durakon in more ways than one. Employees recall work weeks dotted with picnics and parties. "If you wanted to use the [company] pickup for a weekend, you just signed it out," says Sandy Coe, now a human-resources manager. "The way Mike ran the company was as one big family." In fact, Wayne's brother and sister both had signed on as engineering and operations executives, respectively; his son Mark spent summers sweeping the warehouse and joined as advertising manager after college.

But there was also chaos. Executives and workers say that Wayne and other top managers, whose talents tended to lie in marketing, drove sales regardless of manufacturing limitations and financial controls. Mark Wayne remembers when the company had to decide within 48 hours whether to spend $1 million, its entire ad budget for the year, on two Super Bowl TV spots. It did. "These people were entrepreneurs, and when they got an idea, they ran with it," says Frank Palmer, a manufacturing-costs controller for seven years.

Success brought a need for new capital. Loans had been easy to come by, but now debt accounted for 80% of Durakon's capital; the bankers were pressing for new equity. Wayne looked to the stock market. Stocks were hot in 1984, and "I wasn't aware there were a thousand other ways we could have found funds," he says.

Durakon's offering sold quickly, netting nearly $7 million for the company and $1.5 million for Wayne. But the transition to public company forced Wayne to spend much of his time selling Durakon to investors, a role he disliked and that, in any case, was distracting him from the operations.

Soon, those investors, jittery at the vulnerability of a one-product company,



DATA: BUSINESS WEEK, COMPANY REPORTS

MICHAEL ABRAMSON

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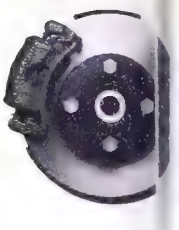

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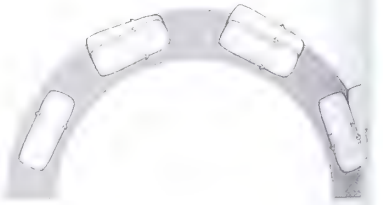

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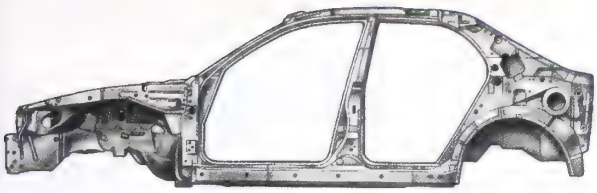

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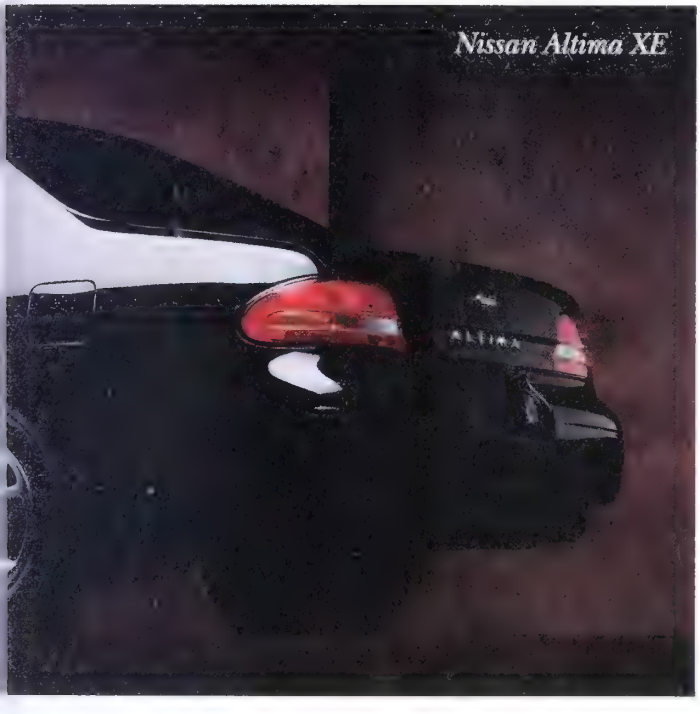

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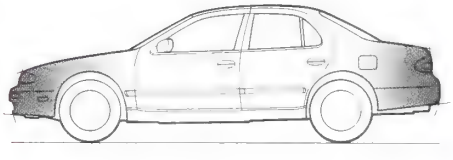

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began pressing Durakon to diversify. "Looking back," Wayne says, "I paid too much attention to Wall Street." He already had bought an extrusion business to supply plastic sheeting, plus a fleet of refrigerated trucks—not to mention a boat manufacturer. Now, Durakon was eyeing bigger trophies. In 1985, it paid $10 million for Jerr-Dan Corp., a manufacturer of towing vehicles and equipment. Two years later, he spent $26 million on DFM Corp., which made plastic truck shields and bug screens.

Sales still were growing—to $108 million in 1987—but the rush was masking mistakes. "The company had undertaken more than it was able to handle," says David Laro, who was then both Wayne's and Durakon's lawyer as well as a Durakon director. "There was a feeling of omnipotence, that it could do everything."

The truth was that Durakon's expansion was straining its managers' ability. Workers were losing confidence—sensing, says one, "that the company had gotten too big for the people running it." Wayne admits he may have been slow to bring in the more experienced managers needed to run his bigger, more complex company. It's a common failing. Says James B. Arkebauer, a Denver financier and author of *Ultrapreneuring*: "When you get to higher volumes, it's very difficult to deal with the controller who has sweated and toiled for four years and, now, just isn't capable any more."

Durakon was poised to take a fall. For Wayne, it started in October, 1987, when Kathy Wayne was badly injured in an automobile accident. A week later came the stock market crash. The two events, Wayne says, took the wind out of his sails. He realized the 16 hours a day he spent at work was coming at the expense of his family. Moreover, "I had worked to build the company, and the measure of that company was the stock price. Now, that drops in half. What do you do?"

Wayne's answer: Buy the company back. In early 1988, he offered shareholders $14.50 a share for their stock. Soon, he received an offer from Masco

WEBSTER: "THERE COMES A TIME WHEN A GUY WANTS TO SPREAD HIS WINGS"

Corp., a large auto-parts manufacturer: Masco would provide the financing for the buyback and get 50% of the company with an option to buy the other later at a substantial premium.

The deal had enormous potential, promising to link Masco's broad product line with Durakon's strong distribution network. But the paperwork and filings took months to work out. By that time, Durakon's prospects had changed dramatically. Pickup sales were down, so demand for liners was weak—even as Durakon was ramping up capacity and staffing. The towing business had tanked, cutting into Jerr-Dan's orders, and margins for DFM's customized shields had been routed by one-size-fits-all rivals. Worst of all, the price of the plastic that it used for liners had surged 68% in two years. Operating income for 1988 plunged 63%, to $3.7 million. Masco backed out.

Early the next year, four of Durakon's top five officers, including Wayne, resigned. Laro, Wayne's lawyer, took over as CEO; Wright returned to management as a vice-president. Both men say they were asked by Durakon's five-member board, which included them

Workers sensed "that the company had gotten too big for the people running it"

and Wayne, to ta management position

Wayne says the de sion to leave the CE office was his. He s he had lost credibil with investors and w determined to leave t company, so he acce ed Laro's offer to ta charge. Wayne withdr to the chairman's offi where he began tryi to find investors to b his 48% interest.

Laro, meanwhile, c fronted Durakon's ca drain. He got rid more than 100 emplo ees and reduced t fringe benefits for tho remaining. To raise ca ital, he sold the DF unit—it fetched just $ million, $16 million less than what D rakon paid—and a critical captive d tributor.

"It was a turbulent, chaotic, excitin time," Laro says now. "And to be hol est, I loved every minute." Othe weren't so sanguine. The company w on the block, and morale had hit bo tom. Employees distrusted Laro; eig months after his arrival, the United Au Workers won a vote to represent pr duction workers. Profits continued drop, and Durakon's stock price sank about $2 by the end of 1990, down fro $7 two years earlier.

Enter Max M. Fisher. The aging D troit industrialist had made his fortune real estate and oil. He discovered Du rakon through Robert M. Teeter, wh had directed George Bush's 1988 Pres dential campaign before joining Du rakon's board at Laro's behest. Fishe was close to Bush, and Laro, too, w active in Republica politics. Fisher and h son Phillip saw in Du rakon a strong bran and distribution chann and, says Phillip, "a opportunity to turn around." They bough Wayne out for $5 mi lion, a sum equal t only half his stock market value.

Durakon entered new era. The Fishe sold half their stock t the New York inves ment firm of Weis

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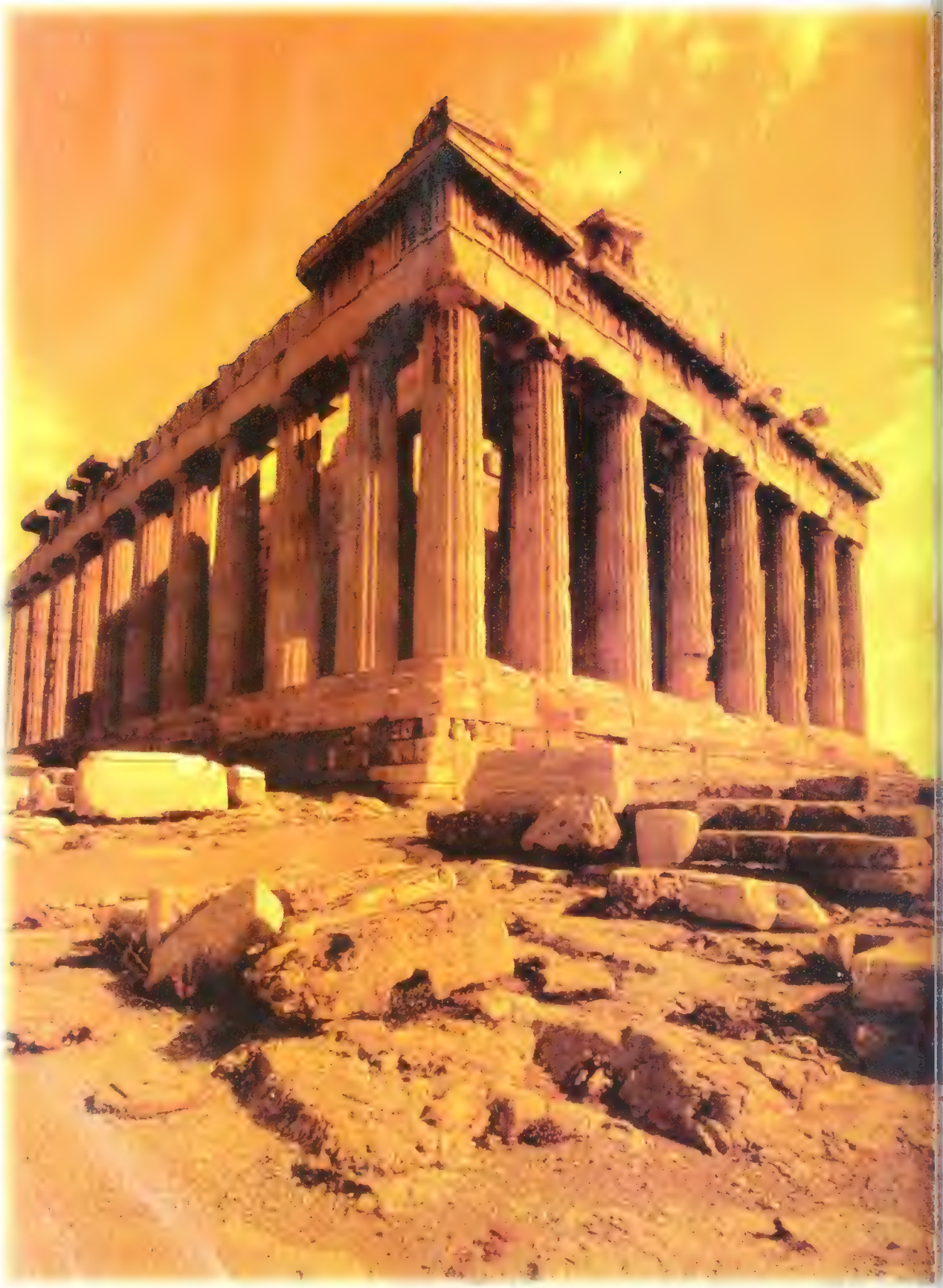

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JOHNSON CONTROLS

Peck & Greer, which has long managed the family's assets. Weiss, Peck & Greer recruited as CEO William Webster, a veteran auto-parts executive who, in turn, brought in a cadre of experienced managers, mostly from the auto industry, to take over all but one of the company's top jobs.

Webster is not a born entrepreneur: Up till then, he had worked for other peoples' companies, in senior posts at Moog Automotive Inc. and Federal Mogul Corp. Staid and plain-spoken, he is well versed in big-company financial controls and long-range strategic planning, and he has instilled that conservatism at Durakon.

But at age 67, Webster is also starting to learn to take risks. "I guess there comes a time when a guy wants to spread his wings," he says. "Maybe there's that element of transitioning for me." That's why he's taking a large part of his compensation in stock options, which accounted for $420,000 of his pay last year.

Webster inherited a company bleeding cash. Over the next few months, he laid off additional employees, bringing staffing down to 425 from its peak of 1,000 in 1988. He negotiated with banks to extend Durakon's loans, which were violating covenants, and he quickly halved the company's inventories and receivables. Gross profits shot to 35% of sales in 1992, up from 28% two years before; overhead expense dropped to 20% from 25%.

FISHER AND HIS SON PUT IN $2.5 MILLION. THE STAKE IS WORTH $20 MILLION NOW

Now, Webster is working to patch up relationships with some unhappy distributors, and he hopes to build both share and total market demand. He's starting sales operations in Asia and Latin America and has entered a joint venture to manufacture Duraliners in Mexico. He bought back the distribution operation that had been sold off and is looking to acquire another business to balance revenues from Duraliners and Jerr-Dan.

Jerr-Dan has blossomed. Under William Kelly, a former vice-president at Shellar-Globe Corp., sales have doubled in two years. Operating costs are down sharply. Kelly has cut the number of products from 197 to 6, and its inventories have dropped from four weeks to just two.

He has hired about a dozen engineers where Jerr-Dan had only two and has instituted manufacturing controls where there were none before. Durakon also has invested nearly $3 million to mi-

DUANE BRAZELL/THE DETROIT NEWS

: the growing subsidiary's factory. rakon's revenues should return to : $100 million this year, up from ıillion in 1992. "We're not a go-go any," says Chief Financial Officer ıas A. Galas. Nevertheless, profits) about 20%. The loans have been off. Employees say they are im-ed by their new managers. "It only about three or four months before e could see Mr. Webster was do-ıe right things," says Jerald Gow- engineering manager. (Webster is] Mr. Webster; Wayne remains e".)

$13, Durakon's stock is well off the point it reached earlier in the year. nvestors are happy. The Fishers' nillion investment is worth about ıillion now.

ce Wayne has not stayed in touch his successors at Durakon; nor has ard from David Laro, now a fed-ıx judge. Friends still at the compa-ll him that Webster and his lieu-ts are doing well. As he listens to a t of Webster's plans, though, he shakes his head and smiles thinly. "Absolutely history repeating itself," he says. He, too, once broadened Durakon's product line. He tried to expand demand. He sunk capital into Jerr-Dan.

Wayne shakes his head over Durakon's new strategy: "Absolutely history repeating itself"

He points out that Durakon has profited from a rebound in truck sales and from a sharp drop in plastic prices. A contract to sell liners to General Motors Corp., which took Wayne years to negotiate, came to full fruition only in 1992—though GM since has pulled back. Orders for tow trucks have surged, too.

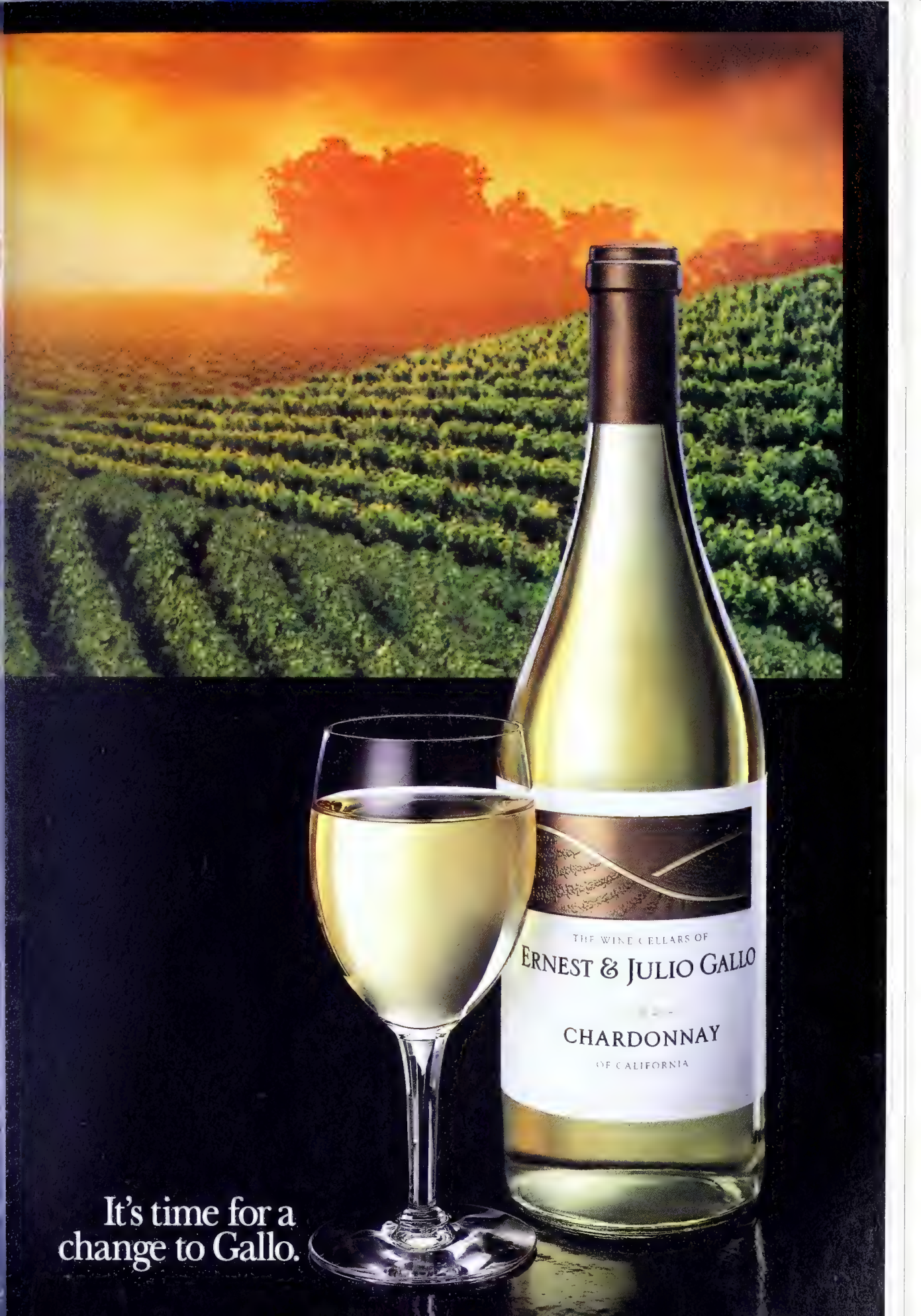
Dynamic Rehabilitation Centers Inc., his new company, appears to be thriving. Its two offices together saw only 150 patients a week in January; now, Wayne says, they treat 350 to 400 a week. Within a year, he expects to add two new back-treatment centers and to double business. He still works hard, but a son, Jeffrey, manages most of the operations, and Mike plans to spend a lot of time this winter at his house in Florida. Kathy Wayne says that nowadays her husband is "relaxing more. He's having fun."

If he feels bitterness about his exit from Durakon, it is well-tempered. Yes, he would be richer if he had waited a year to sell his stock. "But frankly, I'd have the same car, the same nice house."

More important, at age 48, he's happy to be trying something different and to be offering a service he thinks will change peoples' lives. "If I were at Durakon now, I'd be thinking about how can I increase liner penetration, working with distributors, doing the same things I'd been doing 10 years before."

He doesn't miss it. □

Take a new look at Chardonnay.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change to Gallo.

THE FLOODGATES INCH OPEN

Welcome to a new world for small-business lending. Yes, money is still tight—but it can be found

BY SUZANNE WOOLLEY

Vincent Rua was on the prowl for capital. Over the years, the president of $15 million Manhattan-based Skyline Windows had developed good relationships with a number of commercial banks. But when he went after his 1993 financing, it was an investment bank that won his business. After reading about Merrill Lynch Business Financial Services in a newspaper, Rua called it. "Within 30 days, they had turned around our request for a $1.25 million line of credit and about $200,000 of capital-equipment financing," he marvels. "I have dealt with many banks across the country and in New York, and it's just not heard of to get a turnaround in 30 days."

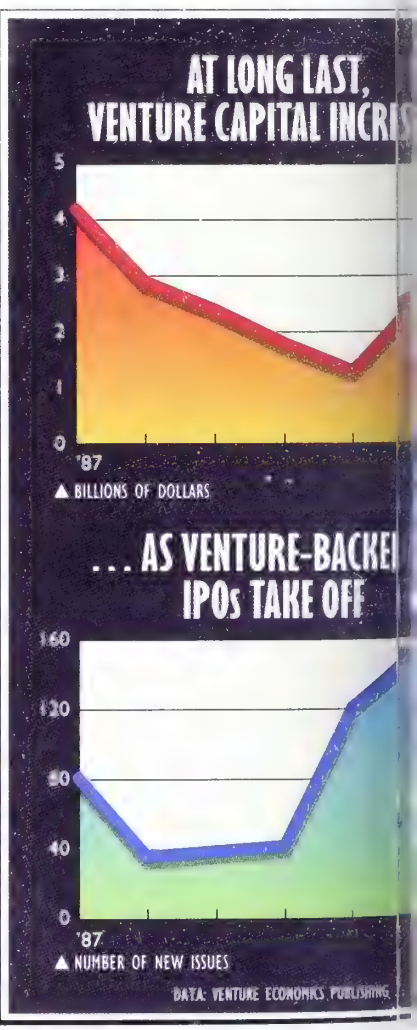
Welcome to the changing world of small-business financing. With President Clinton hailing small business as "the real job-generating engine of this economy" and many providers of financial services targeting it as a growth market, there are finally signs of life in the market for small-business lending. Many banks launching small business-lending initiatives find themselves in competition with other, nontraditional lenders that also want the business. Last year's record number of venture capital-backed initial public offerings is drawing more money into venture-capital funds. States are starting programs to encourage lending. And changes in the taxation of capital gains may spur more of the wealthy to become "angels"—informal venture capitalists who help many small businesses get their start.

All these new avenues in small-business financing can't come soon enough for borrowers still feeling the chill of the small-business credit freeze that began in the mid-1980s. Big losses in banks' loan portfolios, coupled with tighter regulation, caused many banks to turn their focus inward, and lending became a lesser priority. In such a risk-averse environment, only the safest loans got made. There are still many banks stuck in that mind-set. "A lot of banks are looking for an airtight deal," says Kenneth R. Lowe, chief executive officer of $2 million Lowe Manufacturing Inc., an electronic circuit-board maker based in Dallas. "Small business is not airtight."

Bankers don't deny that their standards are still tight. More restrictive policies that lend less against receivables or require more collateral have drawn complaints that smaller businesses are paying for others' mistakes. "Banks got so burned by real-estate deals and bad loans that the companies they've been doing business with are being punished for the criminals," says Ted Leonsis, founder of $10.5 million Vero Beach (Fla.)-based Redgate Communications, which publishes software magazines.

But hope is replacing despair. "There just might be a little climactic change going on," says Hugh H. Trumbull, president of $1.4 million Analytical Graphics in Philadelphia. "We have to earn our spurs every day, but there are signs of good things happening."

One sign that capital is freeing up is the dramatic increase in loans made through the Small Business Administration. In fiscal 1993 alone, the SBA backed $6.4 billion in loans—a 40% rise since 1991. The SBA's up-to-90% guarantee of a loan's value lessens banks' fe about lending to small companies a opens up the doors to borrowers w don't have the collateral to get a co ventional loan. Even nontraditional ler ers such as American Telephone & Te graph Co. have begun making SB guaranteed loans. AT&T Capital Co created the AT&T Small Business Ler



Corp. in late 1992 to provide financ- to first-time franchisors and other l outfits. "Small businesses are just ping up everywhere, and for a com- to be successful, it certainly can't re that marketplace," says Patty lane, a spokeswoman for AT&T Cap- Corp.

enders also open their arms to com- es with hard assets, but real-estate s remain a nightmare. "We're hav- easier access to borrowing on hard t-based products than we've ever " says Walter Riley, president of $35 on Kearny (N. J.)-based Guaranteed night Delivery Inc., a trucking ser- for oversize packages. Riley is hap- ith the 5.75% five-year loan he got 1.5 million worth of trucks. But t ask him about his real-estate ed loan. Riley has a balloon pay- t coming due on an old note, and ad of routinely refinancing it, his Jersey bank wants to do an apprai- nd, suspecting a changed loan-to- e ratio, wants more cash.

Some of the slack in bank lending has been picked up by nonbank lenders. There's Merrill Lynch & Co., which, in a strategic review in 1985, determined that some of its best clients were people who owned their own businesses. After making just $200 in revenues in 1985, its Business Financial Services unit has about $1 billion in revenues today. Its basic product, the Working Capital Management Account, is a combination checking and brokerage account and, for those who qualify, a revolving line of credit. "When you're long funds, you earn on balances," says Richard A. Hanson, the unit's director. "When you exhaust your funds, you pay us interest." Merrill's accounts hold over $30 billion, mostly for companies that have been in business for at least five years, have $2 million to $25 million in revenues, and have been profitable for the last three years.

Expansion capital is still much easier to find than money for starting up

Asset-based lenders such as CIT Group Holdings Inc. and Heller Business Credit are also becoming more of a force in the small-business market. Robert D. Keeler found that out when the new management of his bank, which had been acquired, politely told him that it didn't have an appetite for his type of business. So the vice-president of finance for $37 million Cuplex Inc., a Garland (Tex.)-based company in the printed circuit-board business, turned to a trusted adviser at Ernst & Young, who marketed the company to other lenders. Keeler wound up with working capital in excess of what he had with his bank and says his asset-based lender's formula for lending against inventory and receivables "was less restrictive than the banks and gave us more room for growth."

NEW YORK'S VINCENT RUA WAS AMAZED AT HOW FAST HE GOT CREDIT THIS YEAR

For startups, though, it never seems to get much easier. "Since 1985, it's been a slippery downward slope, especially for those in early-stage startups," says Jim Fitzsimons, who ran a venture-capital fund for 10 years through Miami's now-defunct Southeast Bank. "Those seeking expansion capital can find it, but the classical entrepreneur today would probably not get funded."

While venture-capital funds are up for the first time since 1987, they favor later-stage investment. Companies under $5 million are finding it very difficult, says Michael Puntoriero, partner in Arthur Andersen Enterprise Group's office in Orange County, Calif. Some of his clients go to customers or vendors for financing. But many startups get financed the old-fashioned way, borrowing money from friends and family, mortgaging their homes, and drawing on credit cards.

One avenue that may be opening up for early-stage companies is the informal venture-capitalist network. Every year, such self-made "angels" bankroll approximately 30,000 to 40,000 companies, estimates William E. Wetzel, director of the Center For Venture Research at the University of New

CLAUDE DENGER

Hampshire's Whittemore School of Business & Economics. Wetzel guesses that 250,000 or so angels pump close to $10 billion to $15 billion into early-stage ventures each year.

States are also trying to help small businesses get access to capital. Eager to encourage entrepreneurs with visions of "Silicon Beach" dancing in their heads, Florida has created Enterprise Florida, billed as a "public-private partnership" with the goal of creating 200,000 jobs by the year 2005. Its first effort: trying to put together three $50 million venture-capital fund pools financed by institutions that will cater to fledgling companies. The state is in the "talking stage" about seed-capital financing and is looking into creating a "guarantee pool" to enhance fixed-asset financing for growing companies.

Perhaps most cheering are changes in the capital-gains tax. The tax bite is cut by 50% if an individual's direct investment in a small company is held for five years or longer. "It's Clinton's most promising effort to help the capital market for entrepreneurs," says Wetzel.

There is also action pending in Congress. The Small Business Incentive Act of 1993 would make it easier for small businesses to issue securities. The proposed Small Business Capital Enhancement Act calls for the federal and state governments to match funds set aside to cover loan defaults. That could spur banks to lend to less-established or less-creditworthy companies.

Part of the plan on Capitol Hill is to help open the capital markets to small-business loans. That's the motive behind a third bill, the Small Business Loan Securitization & Secondary Market Enhancement Act. This legislation would make it easier for banks to package together small-business loans and treat them much the same as mortgage-backed securities, which have a huge secondary market lenders can sell into. That could make lenders far more willing and able to serve smaller businesses.

With a number of avenues opening up, the odds of getting financing are turning in the entrepreneur's favor. Granted, it may never be easy to get the money to start a small business. But a determined and resourceful entrepreneur can turn to more sources of funding than ever before. And one of them just might be convinced that the smartest investment is in that person's idea.

With Janet Lee in Washington, Gail DeGeorge in Miami, Stephanie Anderson Forest in Dallas, and bureau reports

HIGH-TECH STARTUPS TO WATCH

This table ranks small, private, fast-growing U.S. technology companies based on the number of employees they added during the last year. It includes companies that have fewer than 1,000 employees. The information is provided by CorpTech, a business directory publisher in Woburn, Mass., from its data base of 35,000 high-tech companies.

COMPANY/ LOCATION	PRIMARY HIGH-TECH MARKET	SALES IN MILLIONS*	EMPLOYEES ADDED**	TOTAL EMPLOYEES	PERCENT GAIN
1. COLEMAN RESEARCH ORLANDO, FLA.	DEFENSE	$50	325	750	76%
2. LOGISTIX FREMONT, CALIF.	COMPUTER SOFTWARE	$50-$100	300	500	150%
3. SNC MANUFACTURING OSHKOSH, WIS.	COMPONENTS & SUBASSEMBLIES	$24	280	600	87%
4. GREAT PLAINS SOFTWARE FARGO, N.D.	COMPUTER SOFTWARE	$50-$100	280	600	87%
5. PAI OAK RIDGE, TENN.	ENVIRONMENTAL	$10-$25	250	300	500%
6. ANAGO FORT WORTH	MEDICAL	$25-$50	250	900	38%
7. PRECISIONAIRE ST. PETERSBURG	ENVIRONMENTAL	$35	200	700	40%
8. NANO PULSE INDUSTRIES BREA, CALIF.	TELECOMMUNICATIONS	$9	200	800	33%
9. PRAEGITZER INDUSTRIES DALLAS, ORE.	COMPONENTS & SUBASSEMBLIES	$50-$100	200	800	33%
10. COMSYS TECHNICAL SERVICES ROCKVILLE, MD.	COMPUTER SOFTWARE	$25-$50	170	550	44%
11. AMERICAN WHITE CROSS LABS NEW ROCHELLE, N.Y.	MEDICAL	$35	150	450	50%
12. GRAHAM MAGNETICS BEDFORD, TEX.	COMPUTER HARDWARE	$50-$100	150	500	42%
13. ENTWHISTLE HUDSON, MASS.	DEFENSE	$10-$25	150	561	36%
14. APPLIED SYSTEMS UNIVERSITY PARK, ILL.	COMPUTER SOFTWARE	$52	150	650	30%
15. IDX SYSTEMS BURLINGTON, VT.	COMPUTER SOFTWARE	$92	150	950	18%
16. KAVLICO MOORPARK, CALIF.	COMPONENTS SUBASSEMBLIES	$70	140	840	20%
17. DOCUCON SAN ANTONIO	COMPUTER RELATED SERVICES	$10-$25	130	250	108%
18. AMERICAN SYSTEMS CHANTILLY, VA.	DEFENSE	$50-$100	130	750	20%
19. COMPUTER SYSTEMS DEVELOPMENT PISCATAWAY, N.J.	COMPUTER SOFTWARE	$23	125	200	166%
20. SCIENCE & TECHNOLOGY CORP. HAMPTON, VA.	ENVIRONMENTAL	$5-$10	125	325	62%
21. ENVIRONMENTAL TECHNOLOGIES GROUP BALTIMORE	DEFENSE	$35	125	352	55%
22. THE C-POWER COMPANIES ROCKWALL, TEX.	ENERGY	$50-$100	125	400	45%
23. HYDROLOGIC ASHEVILLE, N.C	ENVIRONMENTAL	$18	120	250	92%
24. SANMINA SAN JOSE, CALIF.	COMPONENTS SUBASSEMBLIES	$50-$100	115	640	21%
25. QAD, INC. CARPENTERIA, CALIF.	COMPUTER SOFTWARE	$25-50	110	320	52%

*RANGES ARE USED WHERE PRECISE DATA ARE NOT AVAILABLE

**IN PAST YEAR

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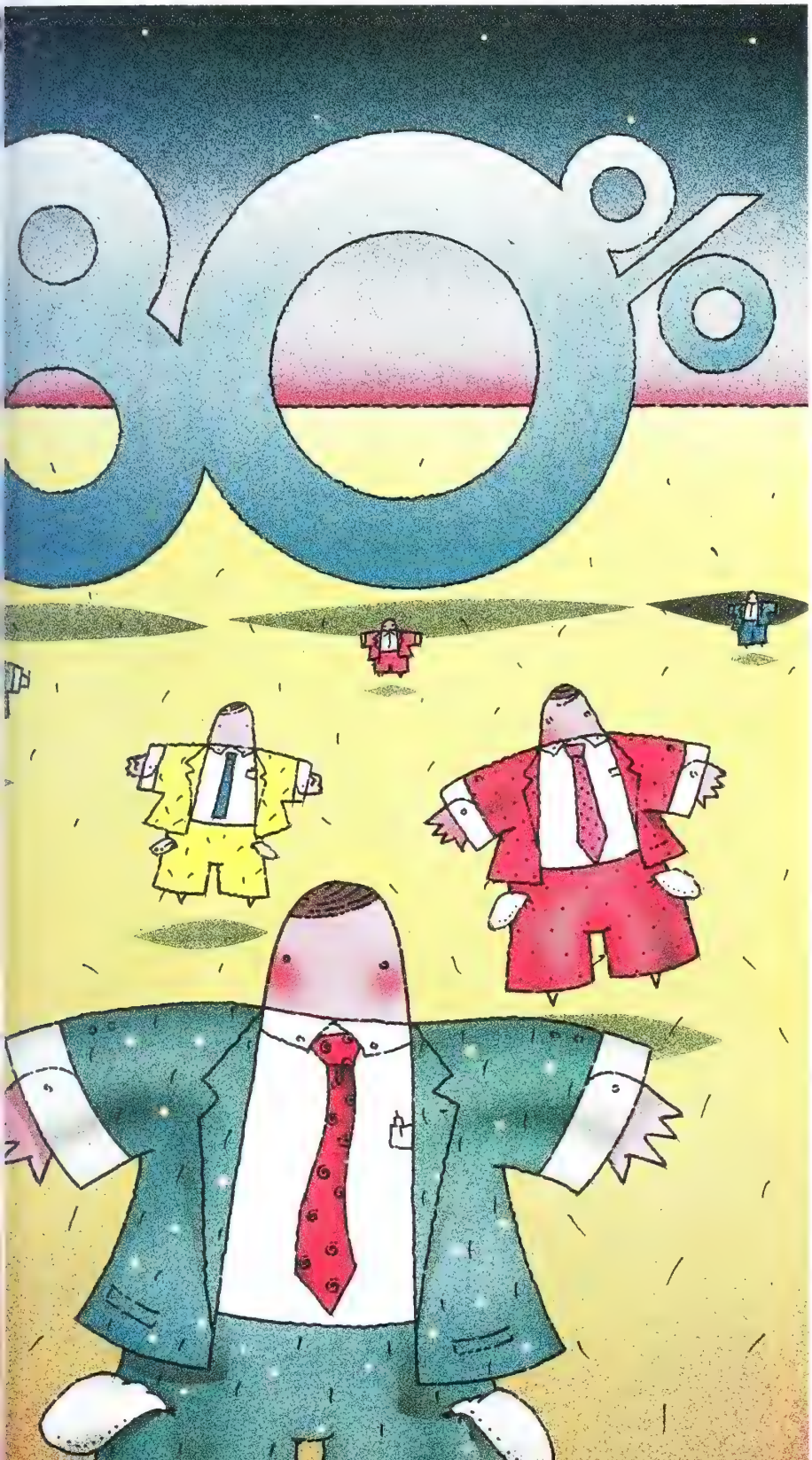

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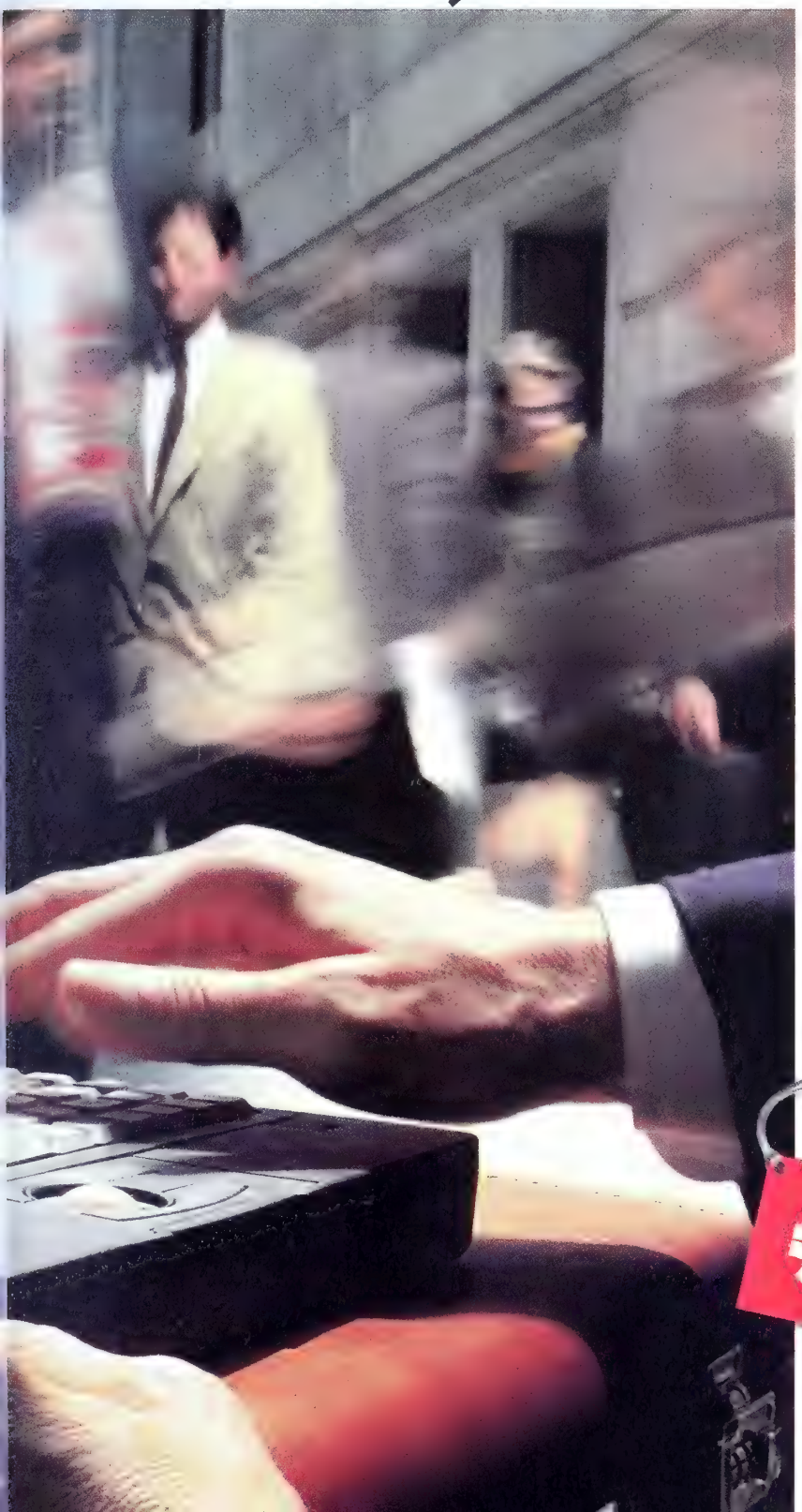
treet, Taiwan.



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LENDERS TO THE SMALL FRY

They're called microlenders, and they help companies that "probably wouldn't get the time of day in a bank"

BY PAM BLACK

OUT OF THE MUD: MILLER'S POTTERY GOT A LOAN—AND MUCH FASTER MACHINERY

Gail Miller, a Dumas (Ark.) potter, had exhausted the bank credit on her six-year-old business. She lost a key employee, ran into an intractable glaze problem, and just couldn't throw enough pots to meet demand for her midpriced dinnerware. Desperate, she turned to Arkansas Enterprise Group (AEG), a nonprofit affiliate of the local Elk Horn Bank & Trust Co. It gave her a $25,000 Small Business Administration loan—and a lot more.

AEG sent a business-service administrator who "came here and sat with me in the mud and got me started with a systematic record," says Miller. AEG sorted out her paperwork and advised her to buy a $19,000 machine that would copy her work exactly. Not a bad idea, considering Miller lost $90,000 last year in unfilled orders. "I can hand-throw 500 pieces a week," Miller says. "This machine can produce 1,500 to 2,000 pieces a week." Now, she looks forward to a time when "it will make me so profitable, I won't know how to act."

Miller joins the growing ranks of the smallest businesses that are surviving, and even thriving, thanks to a nationwide system of grass-roots nonprofit microlenders. Amounting to only a handful five years ago, microlenders now number more than 200. Backed by foundations, governments, banks, and investors, they are meeting a strong demand for loans of less than $25,000—a niche too small for most banks. Moreover, microlenders are trying to bring a more comprehensive approach to helping the poor become self-sufficient.

Most microlenders are three to five years old and have previous lending and business experience. Many target women and minorities. Accion, a Latin American microloan program, serves mainly Hispanics (page 98-E7). The Corporation for Enterprise Development (CED) in Washington operates a five-state pr gram in self-employment for welfa recipients.

Borrowers are mostly home-based so proprietors in retail and service jobs varied as operating a diaper service trimming cow hooves. They borrow little as $50 at rates of 8% to 16 "Based on their job, credit history, ar how little money they want," says Sl spokesman Mike Stamler, "they pro ably wouldn't get the time of day in bank." The Small Business Administr tion gave microlending a boost last ye with a five-year project to lend $75 m lion to micro centers.

Key to the microloan effort is provi ing business training. "Technical assi tance is as important to most progran as money," says Joyce Klein, a CED pr gram director. Help can mean writing business plan, computerizing the book

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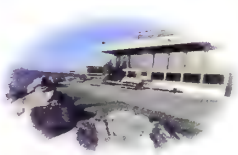

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"If anyone falls behind," says its
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a 98% repayment rate. Peer groups
offer support, advice, and contacts.
has been excellent," says Nelson
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Also, efforts to involve banks have
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well," says Mike Mantel, president
ank of America Community Devel-
ent Bank. "Small businesses," he
, "become big businesses."
o one knows this better than small
munity banks, such as BancOne in
mbus, Ohio, where microloans are a
nstay. "We'll work hard to make a
000 loan," says spokesperson John
sell. After all, he says, BancOne lent
lie H. Wexner $10,000 to start The
ited Inc. □

The price of a dream: $200

It takes courage to walk away from a prestigious high-finance job that pays millions of dollars a year. But last June, Michael Chu did just that. He resigned as an executive of leveraged buyout specialist Kohlberg Kravis Roberts & Co. to work for a nonprofit organization called Accion International, a leading practitioner of microlending to the working poor.

Not many people would take such a plunge. But for the 45-year-old Chu, his new job is a once-in-a-lifetime opportunity. "Accion is on the verge of making a quantum leap" into big-time lending to small enterprises, he says. Funded mainly by private donations and government foreign aid, Accion made loans of $113 million last year, up from $55 million the year before, nearly all in Latin America. Its goal is to lend $832 million over the next three years, which Chu thinks he can achieve by tapping into mainstream financial markets.

FOR CHU, ACCION WAS A ONCE-IN-A-LIFETIME OPPORTUNITY

Accion aims for a niche that the mainstream institutions prefer to avoid: poor, undercapitalized street vendors and other independent merchants. For commercial banks, the employee and paperwork costs of making small loans are too high, and too many people don't pay the loans back, says Constantin R. Boden, head of international lending at Bank of Boston Corp., one of the largest U. S. banks operating in Latin America.

But Accion, which has been microlending since 1973, has an excellent track record. The Cambridge (Mass.) organization has more than 2,000 field officers in 14 countries. Accion made loans to 147,000 individuals last year—averaging $200 apiece. Even though its customers are impoverished, Accion charges them market interest rates. And largely because of the personal relationships Accion employees develop with customers, it claims to have had a default rate of just 1.2% last year—as low as the best U. S. banks. Experts say Accion stands above its peers in the field. "It's at the cutting edge," says Margaret Clark, director of the Aspen Institute's Self-Employment Learning Project.

Chu wants to do more of what Accion does best by pushing it into the realm of high finance. He's considering packaging Accion receivables as a security and selling them to institutional investors. In effect, he would try to create a secondary market for Accion's loans. He may also invest Accion funds in derivatives to hedge against currency swings. Such sophisticated techniques may be just what Accion needs to expand its brand of grassroots lending.

By Geoffrey Smith in Boston

RICHARD SCHULTZ

A FRIENDLY PLACE CALLED WALL STREET

The blazing IPO market of the past year or so has been a godsend for small companies

BY LEAH NATHANS SPIRO

Six years ago, a small company called PETsMART Inc. set out to become the Wal-Mart of the pet-supply world. The idea: build huge warehouse-style stores, stack them to the ceiling with thousands of varieties of pet foods and pet toys, and offer animal-loving consumers rock-bottom prices. The problem was, where to get the money to grow beyond the company's two outlets in Phoenix. Since its founding in August, 1986, when the market for initial public offerings was in the doldrums, PETsMART attracted more than $50 million in venture capital. But like a Great Dane pup, PETsMART kept growing—and had a huge appetite. By last July, the chain had expanded to 72 superstores in 13 states. That's when the company was finally able to go public with a $150 million initial offering. "For us, it means that we are now well-capitalized to grow our business," says C. Donald Dorsey, PETsMART's chief financial officer.

The road from venture capital-backed startup to public company has never been an easy one. But the hot IPO market of the past year or so has been a godsend for small private companies that rely on venture-capital funds. That's because venture capitalists have a much better chance of recouping their investments once the companies they bankroll go public. According to *Venture Capital Journal*, some 70 venture-backed companies raised nearly $2 billion in the first half of 1993, compared with 157 companies that raised $4.58 billion in all of 1992. In September, the pace stayed strong with 12 venture-back companies going public.

Venture-backed IPOs are one of the most lucrative businesses on Wall Street. These deals were only 11% of the $40 billion IPO market in 1992, which includes leveraged buyouts that reemerge as public companies, as well as spin-offs. Most venture-backed deals are less than $100 million, which means they earn a far smaller fee than larger deals. But on such relatively small deals, the investment banks take a larger slice of the p... The bulk of venture capital-backed IPOs, which range from $15 million to $100 million, earn their underwriters a 7% fee. IPOs of nonventure-backed companies are in the 5% to 6% rang...

Not all firms are interested in t... kind of business. In fact, the leads aren't even on Wall Street. Alex. Bro... & Sons, Hambrecht & Quist, Montgo... ery Securities, and Robertson, Steph... are based outside New York. But on... a deal reaches about $30 million, su... heavyweights as Morgan Stanley a... Goldman Sachs dominate the field.

Venture capital funds are also hitt... home runs. Take Cyrix Corp., a Richa... son (Tex.) maker of Intel Corp.-co... patible microprocessors. In 1988, th... venture capital firms invested at 40... share; the stock went public in July... $16, and it has since soared to $40.

So far, there's no slowdown in sight... the hyperactive IPO market. Last su... mer saw a record 70 IPOs a month, a... the pipeline is full for the fall. With l... of cash pouring into the stock mark... and IPOs racking up bigger gains th... the major indices, the appetite for IP... should remain strong. So small com... nies—and their underwriters—will ... busy taking advantage of this oppor... nity while they have the chance.

TOP UNDERWRITERS OF VENTURE-BACKED IPOS

	DOLLAR VOLUME* (MILLIONS)	NUMBER OF ISSUES	FEES (MILLIONS)
MORGAN STANLEY	$517	6	$31
MONTGOMERY SECURITIES	325	10	23
BEAR STEARNS	260	4	18
GOLDMAN SACHS	201	4	14
HAMBRECHT & QUIST	180	7	13
ALEX. BROWN & SONS	138	6	10
MERRILL LYNCH	132	2	9
LEHMAN BROTHERS	122	6	8
ROBERTSON STEPHENS	104	4	7
DONALDSON LUFKIN & JENRETTE	104	1	7

*AMOUNT RAISED BY INITIAL PUBLIC OFFERINGS ISSUED BY VENTURE CAPITAL-BACKED COMPANIES FROM JAN. 1, 1993, TO AUG. 26, 1993

DATA: SECURITIES DATA CO.

PETSMART CUSTOMERS: THE CHAIN'S APPETITE FO... CAPITAL KEPT GROWING

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BUCKLE UP. TOGETHER WE CAN SAVE LIVES.

THE 1964½ FORD MUSTANG WITH THE 1994 FORD MUSTANG

WHAT IT AKES TO TURN AN *MERICAN DREAM* ITO REALITY.

Y Americans have dreamed of owning a sports car, yet up until 1964, when the Mustang ntroduced, sports cars were out of the reach of most people. It took INGENUITY ake that dream a reality. And over the years ingenuity and quality have become Motor Company hallmarks. Ford has always played a LEADING ROLE in ica's love affair with the car, developing model after model of Fords, Lincolns and urys that have not only captured the hearts of people everywhere, but contin- reshaped automotive thinking. From its beginning, in 1903, right up to y, Ford Motor Company has found more ways to say QUALITY than anyone else.

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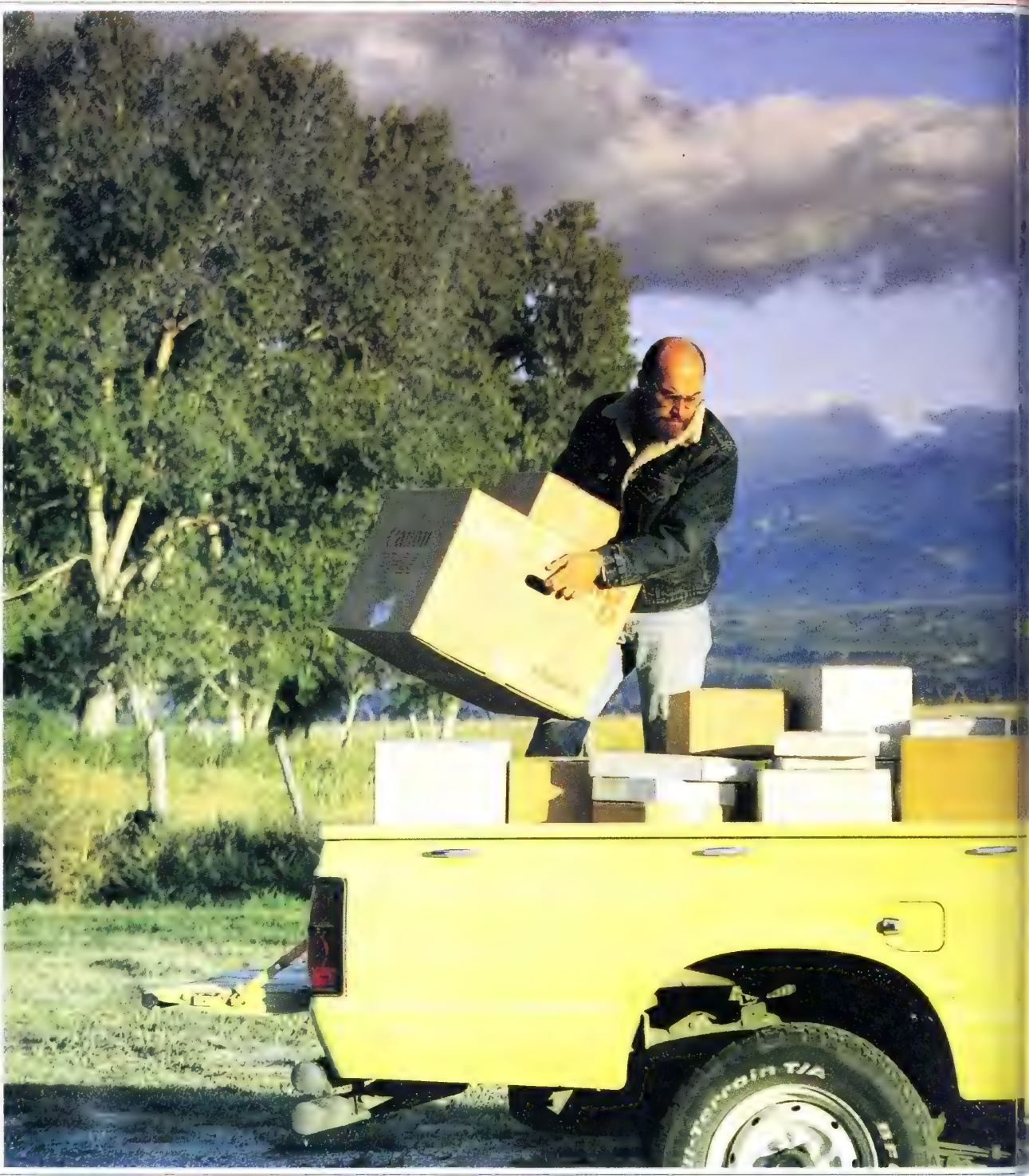
QUALITY IS JOB 1.SM



THE ENTREPR

EURS

They're different from you and me—or are they? A group portrait of entrepreneurs reveals many different types, with several important traits in common

104 OVERVIEW
JUST WHAT IS AN ENTREPRENEUR?
It seems to be in the blood, the inclination to run with a dream. The other essentials: A pronounced love of risk and a high tolerance for ambiguity

117 PORTRAIT GALLERY
THE PEOPLE WHO MAKE A DIFFERENCE
Talk about movers and shakers: The subjects of these 10 profiles have been not only successful but seismic. Some have changed industries—some want to change the world

131 STATISTICAL PROFILE
LESSONS FROM THE HOT GROWTH COMPANIES
Through questionnaires and interviews, 69 CEOs tell us about themselves—what they're like, how they got started in business, and what makes them tick

139 EDUCATION
CAN YOU TEACH ENTREPRENEURSHIP?
Business schools sure think so, and students seem to agree, since they're flocking to take more courses in how to start and run a business

MARK EMMER FOUNDED CATSPAW SO HE COULD LIVE WHERE HE WANTS: IN SCENIC SALIDA, COLO.

JUST WHAT IS AN ENTREPRENEUR?

It seems to be in the blood, that quality to run with a dream. Also essential: A love of risk and a high tolerance for ambiguity

BY MICHAEL ONEAL

Imagine this:

You're a bright young CPA from Cleveland who has decided that the world of Big Eight accounting is simply too rigid to be tolerated. You have a good friend who sells business forms for a living, and before long, you're noticing the large number of invoices, routing slips, and other custom forms your clients use regularly. One day, a light bulb goes on: Your mind transforms the prosaic into a thing of lucrative beauty. Business forms, you decide, hold the key to your wealth and happiness.

So, you hang a shingle, buy an answering machine, and start pounding the pavement as an independent business-form rep. You convince General Electric Co. you're for real and get your first big order. Soon, other orders are flowing in, and the business is booming at 40% gross margins. But you're more ambitious than that. You want to run a business, not just sell business forms.

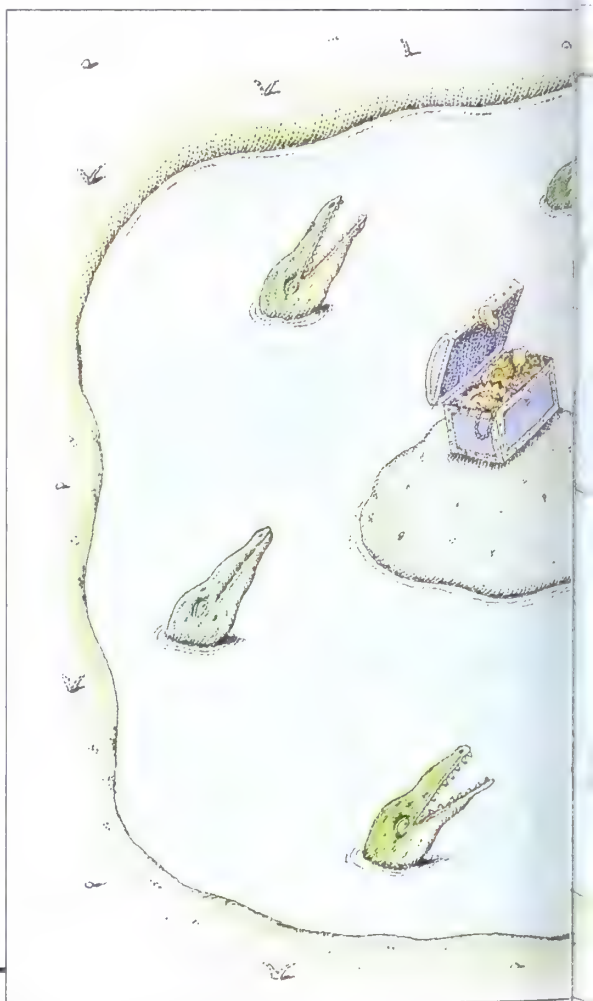
Another idea strikes you, this one more gutsy: Why not sell business-form franchises and expand nationwide? Franchise fees could provide expansion capital, and more outlets would mean volume discounts from manufacturers. You do the homework, set it up, and before long, you've got 15 outlets with annual sales of $5 million.

Then, disaster strikes. Out of the blue, your bank gets panicky because you're financing your franchisees' receivables. The asset belongs to the franchise, they say, and can't legally collateralize your $500,000 line of credit. You figure there must be a solution, but one day, the bankers call the loan and turn ugly. "You know," one of them says, "when we foreclose on a company, we padlock the doors and put Doberman pinschers inside so the owner can't even come in through the window."

Nice. Gregory P. Muzzillo, the founder and chairman of ProForma Inc., lived through this nightmare. For six months afterward, his days were a constant reminder that he might lose it all. It wasn't himself he was worried about so much as the people who had come to count on him. "It was very frightening," he says, "because other people's lives were depending on my decisions."

Muzzillo found another bank. And ProForma is now a thriving chain with 102 outlets and $30 million in sales. Soon, he will enter a joint venture with Fred DeLuca, the founder of Subway Sandwiches. That means more capital and more ex pansion. And it means that Greg Muzzi lo, after investing just $250 to start, on his way to becoming a very wealth man.

Management guru Peter F. Drucke has a theory about entrepreneurs. Hi notion is that anybody from any organ ization can learn how to be one. There nothing mysterious about it, he write in his book *Innovation and Entrepreneu*



Those two things "purposeful tasks can be organized— in need of being nized." They are, rites, "systematic ."

ucker introduces ook, however, with disclaimer: He t be discussing hology and charac- aits." It's an impor- point. While he's ably right that the nuts and bolts trepreneurship can be studied and ed, the soul of an entrepreneur is thing else altogether. "An entre- eur can be a professional manager, professional manager can be an preneur," says Gerald R. Blackie, der of Platinum Software Corp., a rowing maker of financial-manage- programs. "But not every manag- be an entrepreneur."

ople who successfully innovate and businesses come in all shapes and But they do have a few things oth-

Try to find an entrepreneur whose ego isn't wrapped up in the enterprise

ers do not. In the deepest sense, they are willing to accept risk for what they believe in. They have the ability to cope with a professional life riddled by ambiguity—a consistent lack of clarity. Most have a drive to put their imprint on whatever they are creating. And while unbridled ego can be a destructive thing, try to find an entrepreneur whose ego isn't wrapped up in the enterprise.

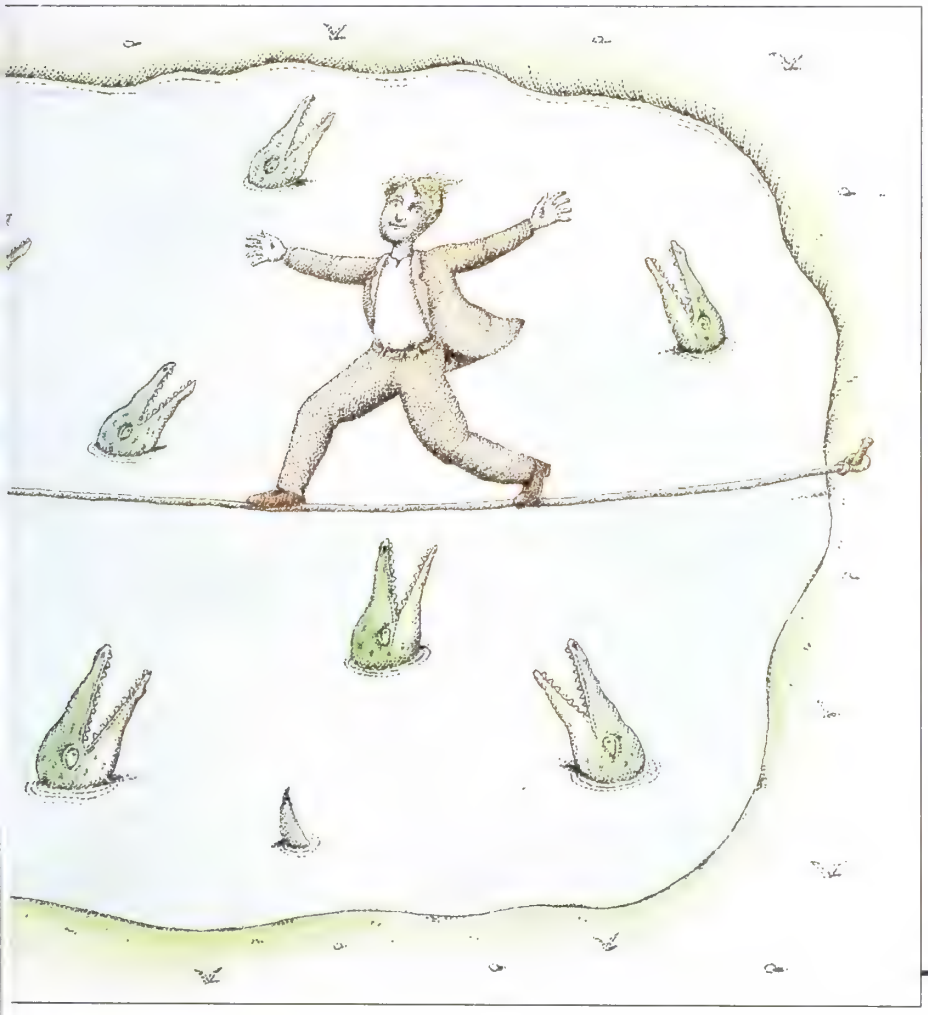
Drucker is right that the task of entrepreneurship has to be organized. The discipline involved in managing growth and innovation is crucial for success. Some people have that skill innately, but most need to learn it. And in an era when entrepreneurs—from Bill Gates to Sam Walton—have become America's heroes, business schools from coast to coast have developed programs to teach the ins and outs of entrepreneurial finance and management (page 139).

Business experience from a corporate job is invaluable, too. Ely Callaway, chairman of Callaway Golf Co., spent 17 years at Burlington Industries Inc. before he was snubbed for the CEO's job and stepped out on his own. He ran a winery before launching Callaway Golf, where he hit it big by developing the Big Bertha driver. For all his success as an entrepreneur, Callaway still credits Burlington for honing his business instincts. His attitude: "I'd rather learn how to ride a bike on somebody else's bicycle than on my own."

But learning those skills is about limiting risk, not creating the desire to take the risk. "You can teach people who want to be entrepreneurs that they can think rationally about that career," says Irving H. Grousbeck, a Stanford University business school professor who spent 17 years running a startup called Continental Cablevision Inc. But "can I teach people to be creative and driven?" he asks. "I'm not interested in that." William D. Bygrave, who runs the Center for Entrepreneurial Studies at Babson College, agrees. While he thinks his students are plenty entrepreneurial, he also believes it's a self-limiting population. Those who aren't cut out for it don't tend to show up.

The fact is, entrepreneurs have what author Tom Wolfe called *The Right Stuff*. And that doesn't mean the macho persona of Chuck Yeager, Wolfe's protagonist. It's another quality Yeager has that, in some measure, is common to most successful entrepreneurs. Yeager's years of experience in the cockpit and his uncanny talent for flying airplanes made his perception of risk different from other people's when it came to testing new designs. He was willing to innovate because he knew he knew how.

Look at Scott Schmidt, the "entrepreneur" who popularized what has become known as extreme skiing. Schmidt jumps from 60-foot cliffs for a living. Ski-equipment companies sponsor him, and people make videos of his jumps. From the chairlift, he appears a reckless maniac. But for every jump, he has carefully charted the takeoff point and landing. And after he leaps, he trusts that his extraordinary



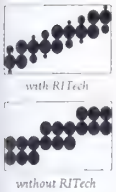
The HP 4L isn't bad, b

THE HP 4L

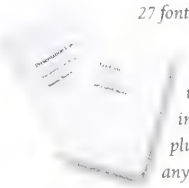
There's only one option on the HP 4L. A memory upgrade from 1MB to 2MB.

The HP 4L is a good laser printer. Just limited.

no ActionLaser 1500.

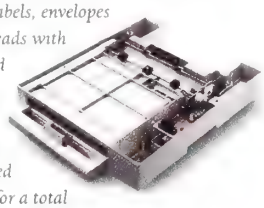


Epson's RITech (Resolution Improvement Technology) increases the ActionLaser's normal 300 dpi print quality to eliminate jagged edges right where you need it: in the curved lines of letters, numbers and images. And Epson's MicroArt printing technology gives you deep, dark blacks and incredibly fine lines.



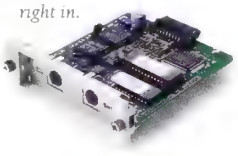
27 fonts (13 scalable) are standard. Should you expand your typographical horizons, unlimited fonts are easy to install via HP-compatible plug-in cartridges, available anywhere. The HP 4L doesn't accept HP's cartridges.

The ActionLaser has 150 sheet paper capacity (letter or legal), and handles stacks of labels, envelopes and overheads with ease. And there's an optional 250 sheet auto-feed cassette, for a total of 400 sheets. The HP 4L holds 100 sheets. Envelopes, labels and overheads are manually fed, one at a time.

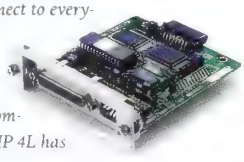


The ActionLaser 1500's top speed is six ppm. That's seriously fast, fifty percent faster than the HP 4L.

If you have a DOS machine, but decide to get a Macintosh, do you need a new printer? Not with an ActionLaser 1500. Just add our EpsonTalk interface and your Mac plugs right in.



The ActionLaser 1500 comes standard with parallel and serial interfaces that allow two users to share a single printer. Add another interface and a third user can share the same printer. The ActionLaser 1500 can connect to everything from PCs to IBM mini and mainframe computers. The HP 4L has one interface.



THE EPSON ACTIONLASER 1500

It's easy to add more memory. Just pop in inexpensive, industry standard DRAM chips, for a maximum of 5 MB. The HP 4L only goes up to 2 MB.

PCL 5 emulation is standard. The extra power of Adobe PostScript is a simple plug-in option. With HP, you have to buy another printer to get PostScript.

PC Computing Best Buy. (June 1993.) The word is getting around. The Epson ActionLaser 1500 is the best choice in personal lasers.

The ActionLaser 1500 comes with Epson's limited two year warranty. HP offers one year. For help, call the Epson Connection. Quite possibly the best help line in the business. And it's free.

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talent will help him cope with what comes his way as he falls. His pioneering work has broken the path for an "industry" of extreme skiers—some of whom have been more reckless and died. Schmidt doesn't consider himself reckless. He considers himself a damn good skier.

But comparing entrepreneurs to test pilots and cliff skiers runs the danger of buying into the popular image of entrepreneurs as daredevils. Most of them aren't. "You don't have to be a circus barker," says Grousbeck. "You don't have to be impulsive or flamboyant." You just have to have an idea—and a need to see your idea come out your way. Independence matters most to an entrepreneur (chart). The confidence that flows from ownership of the idea creates the drive to endure the often dire consequences of that independence.

Consider the case of Scott D. Cook, the 40-year-old founder of a hot, $100 million PC software company called Intuit Inc. Cook is no daredevil. "I'm actually pretty conservative by nature," he says. He was no babe in the woods, either, when he launched Intuit.

Cook had grown up the son of an entrepreneur. His father made industrial fire extinguishers, and Scott recalls childhood weekends spent in the garage screwing metal pipes together ("They told me they were for missiles," he says). Before setting out on his own, he spent three years at Procter & Gamble Co. working on the Crisco brand and another three years as a consultant at Bain & Co. Neither really suited him. He liked the work, but not the politics.

His epiphany came one night in 1982 when his wife, Signey Ostby, began complaining about the software program she was using to pay bills. Had she known what she was getting herself into, she would have kept quiet. Cook and Signey's sister began to study the market and discovered a lot of people hated their financial-planning software. The available programs were too complicated. They had too many features customers didn't need.

As far as Cook could tell, financial-planning software was a consumer business. The problem was, it was run by technoids. "The guys out there didn't survey the market," he says. "It was classic P&G: Everybody does it, and everybody has a problem." For Cook, that was rationale enough. As long as he could develop a better product, the risk looked like one worth taking. So he turned to Tom Proulx, a Stanford computer whiz. Then a senior, Proulx banged out a prototype called Quicken. After testing it successfully on accounting neophytes, Cook started calling venture capitalists in late 1983.

He figured credibility would be a problem. He was, after all, a former Crisco salesman teamed with a college student. What bothered the venture capitalists, though, was Quicken itself. Many lamented its dearth of features next to such programs as Home Accountant and Dollars & Sense. Simplicity, Cook argued, was what the customer wanted. The prevailing wisdom in computerdom was that complexity was good. Cook's consumerism was too foreign a concept.

Cook and Proulx plunged ahead anyway. They worked without salaries and rounded up two small investors. Cook added his savings, his Bain profit sharing, his credit cards, and two loans from

"You don't have to be a circus barker. You don't have to be impulsive or flamboyant"

his parents to create $400,000 pot of init capital. They knew th would need more market Quicken pro erly, but they figur time was of the essen

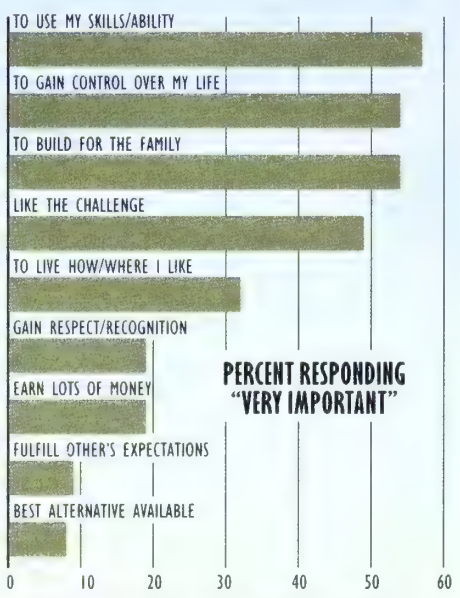
By 1985, however, t money was gone. T last bit was spent or fruitless ad in PC mag zine. April 30 broug the blackest moment Cook's career: He h to tell his six other employees couldn't pay them. The rest of the y was utter hell. "I was stuck," Cook sa "I knew if I went bankrupt, I'd be pa ing off the debts for the rest of my li If someone had walked in and said, buy it,' I'd have said, 'Here's the keys. As for his personal life, "My w thought that I had gotten us into a h hole. I still had faith I had the rig product, but the thought of losing all was driving her to distracti Our marriage came within inches blowing up."

Cook found a soluti in late 1985. He h been trying to convin a number of banks buy Quicken and resell to their customers. Fin ly they came throug Direct mail sales follow and eventually retail d tribution. By this Mar Cook and Proulx took booming Intuit publ That was a thrill, but has left Cook with no lusions about entrep neurship. He's not ev sure how he got throu 1985. "I just thought would be a lot easier th that," he says. "The th is there as long as t paycheck is there. But it's not, the thrill go away real quick."

Platinum Softwar Gerald Blackie knows what Cook has been through. He s entrepreneurs get by with an innate a ity to compartmentalize their fears a doubts. Platinum, which has been gro ing briskly, is a $39 million maker software to help companies manage nances. But it almost derailed in 19 when a distribution deal with I soured miserably. Facing the threat bankruptcy "is the worst nightmare y can have," Blackie says. "But you h

WHY DO ENTREPRENEURS TAKE THE PLUNGE?

Arnold C. Cooper, a Purdue University management professor, spent three years from 1985 to 1987 studying new business in America for the National Federation of Independent Business. He drew the following results from a survey that asked 2,995 people why they had decided to go into business for themselves:



DATA: ARNOLD C. COOPER, ET AL., *NEW BUSINESS IN AMERICA*, 1990; NFIB/VISA BUSINESS CARD *PRIMER*


hen you were a kid you made yourself a promise.

Maybe this is the year you ma

)d on it.

So you never hit one out of Yankee Stadium, or headlined at the Garden like you planned. You can still drive a Corvette. And it's even more fun than you imagined it as a kid.

Because today's 'Vettes have 40 years' worth of Chevy engineering breakthroughs: The LT1 engine, one of the world's most advanced small-block production V8s. Dual air bags. The union of Bosch ABS brakes and ASR traction control. And no other Corvette has a cockpit quite as refined as this year's.

So, even though you've wanted a Corvette for as long as you could reach the accelerator, it's probably a good thing you waited until now. Because the 1994 Corvette is the best one yet.

Chevrolet Corvette

to put those feelings in a box and close it. If you really analyze them, you wouldn't do what you have to do."

It is often said that entrepreneurs tend to be blind optimists, but that's too simple a formulation. More likely, they believe in what they're doing with a passion that overcomes doubt—a passion that allows them to contain the feelings Blackie talks about.

William Gorog, founder of the Lexis and Nexis data-base systems, has lately been developing a product designed by his son John. It is a telephone turned interactive transaction device. The Gorogs took a phone, equipped it with special software, and attached a wand that reads bar codes. Wave the wand over a catalog to order groceries, pay bills, conduct bank business—you name it. Gorog formed U. S. Order in 1990 and got an aircraft charter company called World Corp. to back him. Sprint, Bell South, and Bell Atlantic have signed on to help sell the devices.

But in the past year, the landscape has changed dramatically. Blaring from every newsstand has been talk of "the information highway" and interactive television. If all goes as predicted, your TV set may soon be able to do everything U. S. Order's ScanFone promises. Gorog's reaction: "I thought, 'Hot damn! People finally understand what we're talking about.'"

Gorog's lieutenants were a little less sanguine. They pondered for a month over how to react. In the end, their solution was brilliant. They decided to sell the phones for the five to seven years it will take to get interactive TV off the ground and see how the market develops from there. Meantime, they will sell to prospective competitors U. S. Order's ability to provide interactive transaction services—expertise those companies would otherwise have to develop on their own. "Our niche is to offer these back-end services to anybody," Gorog says. "This wasn't part of our original strategy. [But] if you don't reexamine what you're doing often, you'll end up out on the limb of a tree."

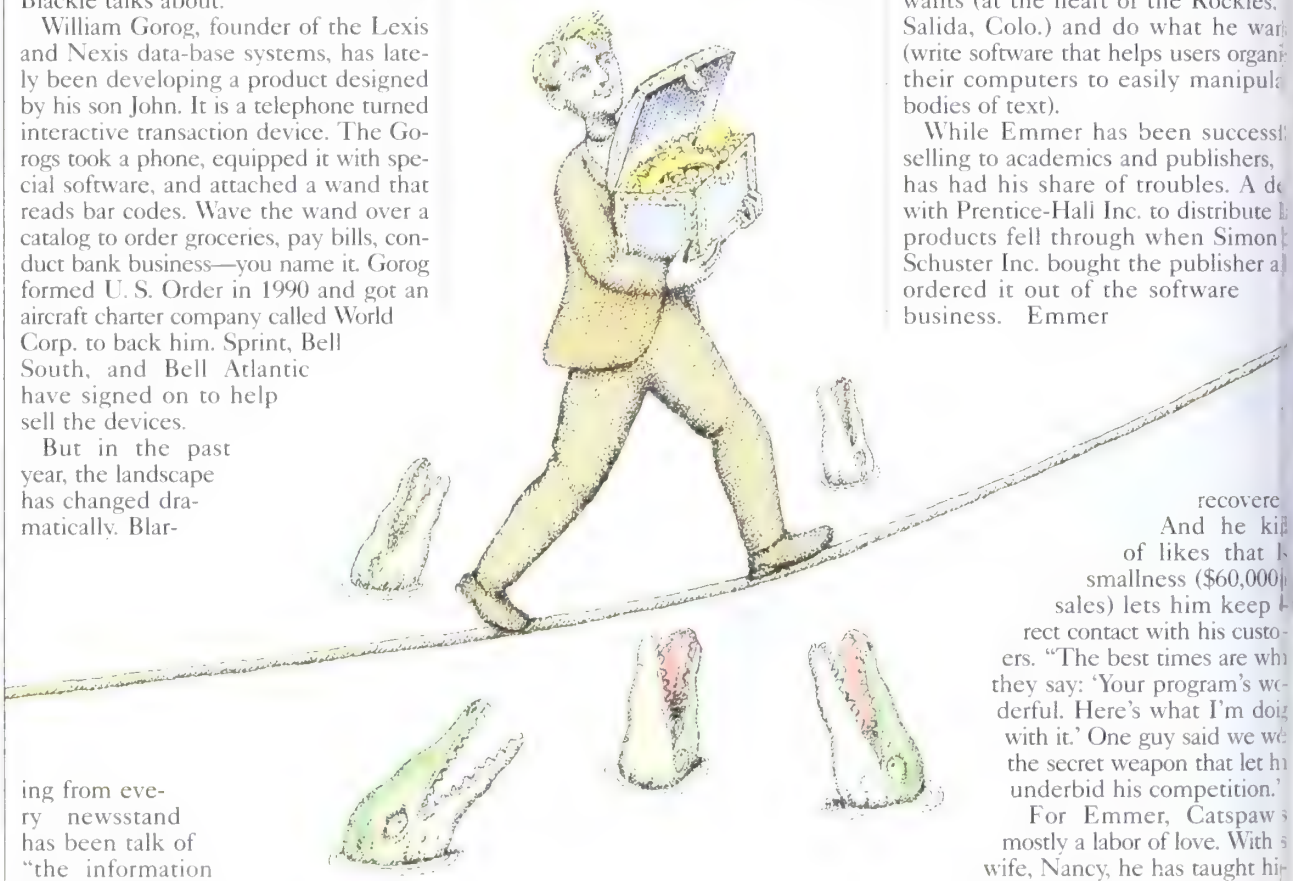
Psychologizing always has its limits, but Paul Shipman, founder of Seattle's booming Red Hook Ale Brewery, is convincing when he speaks of an entrepreneur's "bright side and dark side." The bright side is the ability to strategize and implement effectively. The dark side is the highly personal set of motivations that makes failure intolerable. Shipman latched onto brewing as a way to differentiate himself from a family of lawyers. "It was a very long shadow and a very powerful competitive issue," he says. "It's real primal stuff. Entrepreneurship is primal, right at its root."

Shipman, too, ran out of money when Red Hook's brew lost fizz at the retail level. He reformulated it, pushed ahead, and now has $11 million from a syndicate led by General Electric Capital Corp. to build a new brewery in a Seattle suburb. "In the face of a situati that by all logic is a certified disaste Shipman says, "the entrepreneur ca countenance defeat."

Many an entrepreneur, of course, fin that the life is not defined by Sturm u Drang. For Mark B. Emmer, w founded tiny Catspaw Inc., owning company is an excuse to live where wants (at the heart of the Rockies, Salida, Colo.) and do what he wan (write software that helps users organi their computers to easily manipula bodies of text).

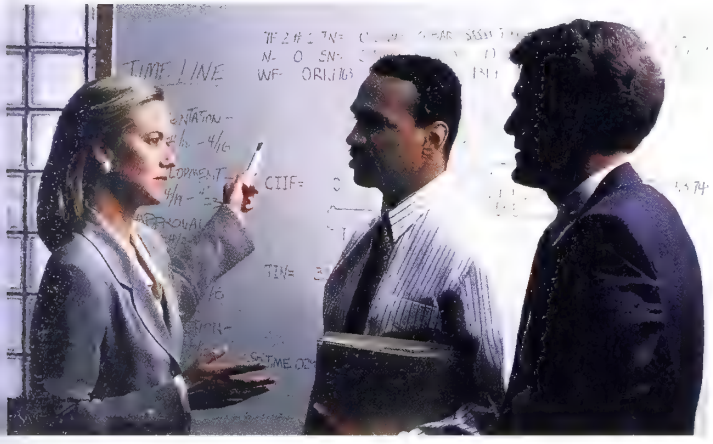
While Emmer has been successf selling to academics and publishers, has had his share of troubles. A de with Prentice-Hall Inc. to distribute products fell through when Simon Schuster Inc. bought the publisher a ordered it out of the software business. Emmer recovere And he ki of likes that smallness ($60,000 sales) lets him keep rect contact with his custo ers. "The best times are wh they say: 'Your program's wo derful. Here's what I'm doi with it.' One guy said we w the secret weapon that let h underbid his competition.' For Emmer, Catspaw mostly a labor of love. With wife, Nancy, he has taught hi self to advertise, put together rect-mail programs, and buy packagi In a sense, he has learned for himsel what Drucker calls "organizing" the trepreneurial endeavor. But Emmer a came equipped with the intangib Drucker doesn't talk about. "From t first, I had no real fe of taking a risk or bei out of a job," he says. felt I was bright enou that I could support m self and my wife. Wh other people would s as a risk, I saw as da ing on my toes." Chu Yeager might put it d ferently. But you c bet he knows what E mer is talking about.

With Sandra D. At son in Denver



One entrepreneur's "primal" motive: Breaking away from family tradition

Our ideas are helping power an energy plant.



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AT&T MAXIMUM ADVANTAGE

QUARTERLY STATEMENT

AT&T

Mr. Mort Keshin
President
Mort Keshin & Co., Inc
1044 Northern Blvd
Roslyn, NY 11576

Account Number	Credit
BEN 908 555 1212	$131.20
Date	
11/93	

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	Eligible Usage	What You Could Have Paid	Credit
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• **Increase your savings to 5.5%** by extending your Term Plan to 24 months.**	5.5%
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• **Your usage suggests you could benefit from direct access to the AT&T Network.** Gain added savings and convenience. Ask your Account Executive about T1.5 access. (Please see the back for more details.)	varies by location

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THE PEOPLE WHO MAKE A DIFFERENCE

Talk about movers and shakers: The subjects of the following 10 profiles have been not only successful but seismic. They include men who have transformed entire industries and women who are working to change the world as they build businesses big and small

PHOTOGRAPHS BY MICHAEL GRECCO/SYGMA
EDITED BY RON STODGHILL II

ERIC SCHIFFER

SPORTSMED

Eric B. Schiffer fondly recalls a fourth-grade teacher who liked to dole out mock dollars instead of grades. Schiffer was the richest kid in class.

Today, at 26, Schiffer is a multimillionaire who has run a hodgepodge of businesses, from real estate to health care. Yet for Schiffer, amassing a fortune isn't enough. Recently, he launched the Eric Schiffer Foundation, a nonprofit outfit that teaches disadvantaged youths business ethics and skills and also provides seed capital for startups.

Schiffer got an early start in business. At 13, the Fresno (Calif.) native and son of a brain surgeon wrote a weight-lifting book for teenagers. By 22, he had already written and sold an educational sofrware program on molecular fusion, made $200,000 selling real estate, owned a sports-rehabilitation clinic called Sportsmed, as well as Quality Medical Associates, a California chain of clinics that help insurance companies root out fraud in workers' compensation claims.

With all this, why is Schiffer investing time and money in his foundation's "American Dream" project? Because the public schools don't teach business skills or ethics. And because there's more to life than makin' money. "Helping kids makes me feel good," he says simply.

By Owen Ullmann

RUSSELL SIMMONS

SH COMMUNICATIONS

During the 1980s, it was enough simply to call Russell Simmons the king of rap music. After all, his New York-based record label, Def Jam, was a pioneering force behind the explosion of the "street"-inspired genre.

Today, though, Simmons is more than that: His $34 million Rush Communications is the second-largest black-owned entertainment company. It includes five record labels, several management companies, a film and television branch, a radio production company, and a clothing line. He is currently at work developing three sit-coms for network television and a 24-hour satellite-distributed rap radio station.

The key to Simmons' success has been his knack for packaging and selling black culture—music, comedy, and film—to mainstream America, especially urban teens. Several artists on his record labels, from Public Enemy to LL Cool J, boast crossover appeal, and his latest venture, HBO's Russell Simmons' Def Comedy Jam, is among the cable giant's most popular programs with black and white audiences alike.

Simmons has lately considered taking his media empire public to help finance future growth. If Wall Street bites, he'll be one step closer to realizing his dream of building a true black entertainment powerhouse.

ANITA RODDICK

BODY SHOP INTERNATIONAL

The past 16 years have been good to Anita Roddick. The founder of Body Shop International has taken her hair and skin-care company from a tiny storefront selling beauty potions out of urine-sample bottles to a $250 million business with stores in 41 countries.

Despite Roddick's insistence that wealth isn't important to her, she and her co-founder and husband, Gordon, are one of the richest couples in Britain, worth an estimated $350 million.

Few entrepreneurs have tied their product to a social cause with better effect. The outspoken Roddick, 50, routinely belittles the beauty industry and has shaped her company's products into promotions for socially responsible capitalism. At Body Shop, there's no animal testing, the returned bottles are refilled, and most of the ingredients are derived from natural sources. In October, as part of an AIDS-awareness campaign, the company began handing out condoms and pamphlets about safe sex at its 150 U.S. stores.

Roddick may need to refocus her energy on boosting earnings. After an aggressive expansion program in 1992, profits slipped 15%, to about $32 million, on sales of $252 million. Roddick, though, is unfazed. After expanding to Mexico, she eyeing Vietnam and Cuba.

By Laura Zi

JIM DAVIS

NEW BALANCE ATHLETIC SHOE

In the multibillion-dollar sneaker industry, Jim Davis doesn't mind being considered an outsider. With only a small advertising budget and a simple product aimed at serious runners, the low-profile Davis realizes that his company, $95 million New Balance Athletic Shoe Inc., is no match for such giants as Nike Inc. and Reebok International Ltd., which hog the limelight with glitzy ads and an array of products. Yet Davis is quick to crow about one fact distinguishing New Balance from its rivals: His shoes are made in the U.S.

While many manufacturers have fled the inner cities in search of cheap foriegn labor, New Balance makes 75% of its shoes with a 1,250-person work force from working-class neigborhoods in Boston and nearby Lawrence, Mass. Because of the high percentage of minority employees, the company's training programs are taught in English, Spanish, and Portuguese.

Rejecting the view that overseas labor turns out better quality, Davis keeps productivity and quality high with a wage-based incentive program. New Balance hopes to steal a march on competitiors with its new MK907, a men's wing-tipped dress shoe that offers sneaker comfort. Priced at about $100, the shoe, made in Maine, hit the stores earlier this year.

HERBERT KELLEHER

SOUTHWEST AIRLINES

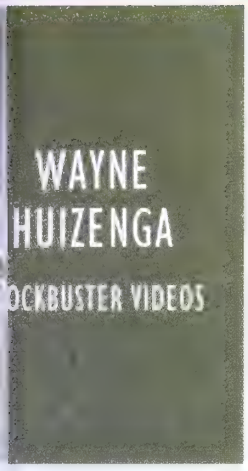
To consumers, Southwest CEO Herbert D. Kelleher is a hero, bringing low fares and more flights. To rivals, he's the driving force behind the industry's painful restructuring.

Kelleher has turned Dallas-based Southwest Airlines Co., serving 37 cities, into the fastest-growing and most profitable carrier in the country. While the industry lost $10 billion over the past three years, Southwest earned $91 million last year, on revenues of $1.7 billion. Wherever Southwest goes, the fares plummet by 50% or more, traffic explodes—and Southwest becomes the dominant carrier.

Kelleher, a lawyer by training who helped get Southwest off the ground in 1971, insists that there is no secret ingredient in Southwest's leadership. The airline aggressively squeezes out costs (no hubs, no meals on flights, no exchange of baggage with other airlines), it boosts productivity through profit-sharing, and it grows conservatively without heaping on debt.

More important, Southwest sticks to its niche: frequent, short-haul, point-to-point flights at rock-bottom fares. With nearly everyone else struggling to copy Southwest, especially on shorter routes, Kelleher's counterattack is simple: keep doing what Southwest does best. And that's plenty.

By Wendy Zellner



Wayne Huizenga is not your typical entrepreneur. Rather than invent a business, he would rather take a promising one and enlarge it. In the 1970s, he helped turn a scattering of garbage-haulers into Waste Management Inc., which became the nation's largest waste-disposal company. He saw the same economies of scale in the video-rental business in 1987, when he became chairman of Blockbuster Videos Inc., which had 19 stores. Today, Blockbuster has 2,234 stores in the U.S. and 1,024 more in Canada, Europe, Latin America, and Australia.

But Huizenga is concerned that new technologies will stop the growth of his empire. So he is making forays into the entertainment business. His latest move: linking up with cable giant Viacom Inc. in an attempt to purchase Paramount Communications Inc. Blockbuster's music-retailing arm boasts 236 stores and an alliance with Virgin Records Ltd. to build superstores. To round out the entertainment picture, Blockbuster bought huge stakes in Republic Pictures Corp. and Spelling Entertainment Inc. As if that weren't enough, Huizenga has personally picked up a new baseball team, the Florida Marlins, and a hockey team, the Florida Panthers.

By Gail DeGeorge

RICHARD BRANSON

VIRGIN ATLANTIC AIRWAYS

MIKE ILITCH

LITTLE CAESARS

When Mike Ilitch opened his first restaurant, in Garden City, Mich., in 1959, he was all set to call it "Pizza Treat." His wife, however, sensed that this was a mistake and suggested the more colorful Little Caesars. Since then, Ilitch's instincts have gotten a lot sharper.

In Detroit, Ilitch is something of a folk hero. He has turned his company, Little Caesars Enterprises Inc., into the nation's third-largest pizza chain, boasting $1.7 billion in sales through its 4,000 stores, one-quarter of which are company-owned. He has breathed life into the once-comatose Detroit Red Wings hockey team, which he bought in 1982, and he has plans to do the same for the Detroit Tigers baseball team, which he purchased last year from a rival pizza mogul, Tom Monaghan. Along the way, Ilitch has championed urban redevelopment: He renovated the historic Fox Theatre and an attached downtown office building that houses his headquarters.

Despite these side interests, Ilitch, the Detroit-bred son of immigrants from Macedonia, in the Balkans, will always remain a pizza man. He's ready to take Little Caesars, known for its carry-out restaurants, into new territory. By 1996, he plans to open 1,200 sit-down restaurants in Kmart stores.

Twenty-one years ago, Sheri Poe was raped near the campus of Southern Illinois University in Carbondale, where she was studying as a freshman. The incident brought years of emotional turmoil, which resulted in bulimia and a stint of living on government assistance. As therapy, she turned to aerobics, discovering on the way that most athletic shoes for women were designed without the narrow heel or the high arch that are typical of women's feet.

Today, Poe has not only recovered from her assault but also runs her own aerobics shoe company, Ryka Inc., based in Norwood, Mass. With $12 million in annual sales, six-year-old Ryka is tiny. But Poe is carving a niche in the market through a potent and personalized advertising campaign that reaches out to female victims of violent crime.

The company has pledged 7% of its profits to a fund called the Ryka ROSE (Regaining One's Self-Esteem) Foundation, which channels money to groups helping such women. And recently, a controversial print ad seeks to raise awareness and sales by juxtaposing images of teary-eyed rape victims with women exercising. The copy reads: "Sometimes, the only way to work it out is to work it out." For Poe, things couldn't be working out better.

ERNEST MARIO

ALZA

Over the past two decades, scrappy Alza Corp. has carved a solid niche in the drug industry by licensing skin patches and other drug technologies to big players. But Alza got stodgy. It seemed content to watch others reap the windfall from successful products. In August, however, the $229 million company made a bold move that could rekindle growth. It tapped Ernest Mario, former CEO of drug industry giant, Glaxo Holdings PLC.

Months after quitting Glaxo over opposition to diversify the company, Mario, 55, is leading Alza's ambitious plan to go beyond licensing into creating new drugs and reformulating generic ones. Mario, lured by Alza's cutting-edge technology and a generous stock-option package, says the Palo Alto (Calif.) outfit is positioned to zoom ahead in an industry that has been coasting by raising prices and turning out me-too products.

A trained pharmacist, Mario plans to push Alza toward developing and selling its own products. He concedes that the close-knit company was somewhat skeptical before his arrival. Alza's early 1980s financial woes created what he calls a "conservatism bred by trauma." The question is whether even a risk-taking outsider like Mario can reignite the entrepreneurial flame that once burned at Alza.

By Joan O'C. Hamilton

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AMERICAN BUSINESS INFORMATION
Vinod Gupta
Omaha (402 593-4500)

AMERICAN MEDICAL ELECTRONICS
Joseph Mooibroek
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Richard E. Sabourin
Broomfield, CO (303 465-1755)

BOOKS-A-MILLION
Clyde B. Anderson
Birmingham, AL (205 942-3737)

CALIFORNIA AMPLIFIER
Barry W. Hall
Camarillo, CA (805 987-9000)

CANTERBURY EDUCATIONAL SERVICES
Stanton M. Pikus
Medford, NJ (609 953-0044)

CATALINA MARKETING
Tommy D. Greer
N. St. Petersburg, FL (813 579-5000)

CHECKERS DRIVE-IN RESTAURANTS
James E. Mattei
Clearwater, FL (813 441-3500)

CHIPCOM
John R. Held
Southborough, MA (508 460-8900)

CITATION COMPUTER SYSTEMS
Kenneth R. Brown
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Maple Grove, MN (612 550-8000)

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Jane C. I. Hirsh
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CROSSCOMM
Tadeusz Witkowicz
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DATA RACE
Herb T. Hensley
San Antonio (210 558-1900)

DAY RUNNER
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Fullerton, CA (714 680-3500)

DIGI INTERNATIONAL
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AN YOU TEACH NTREPRENEURSHIP?

B-schools think so—d students are cking to take urses in how start and run a siness

ANDREW WALLENSTEIN

·A.

ıen you hear those letters, what :s to mind? Wall Street? Executive s? A six-figure salary? How about ng your own business?

roughout the 1980s, an MBA from a usiness-school was a ticket to a fast- job at a major corporation. That's the case for some graduates. But : days, an increasing number of as- g MBAs are getting their degree to ı how to become entrepreneurs. ols are meeting the growing de- d by adding more courses in their culums, as well as linking students ese programs to local venture capi- s and entering them in grueling en- eneurial competitions. The ques- is: Can a concept as fuzzy as :preneurship be taught? "When a ɔn earns a degree in physics, he mes a physicist," says Morton Ka- , a professor of entrepreneurship ɔrthwestern University's J.L. Kel- Graduate School of Manage- t. "But if you were to earn gree in entrepreneurship, wouldn't make you an :preneur."

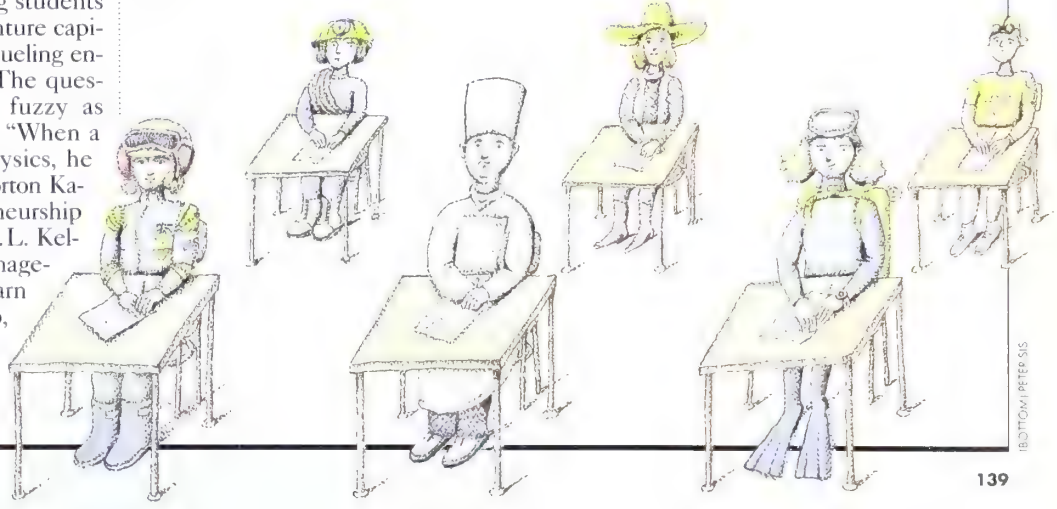
that as it may, B-school ents seem to regard these programs as a necessary first step. "There's a large gap between academics and the real world," says Robert Mason, a graduate of New York University's Stern School now working for a business-development consulting firm. "The entrepreneurship-studies program bridged that gap better than any other academic experience I've ever had."

Of the almost 100 schools that offer comprehensive entrepreneurship programs, usually in the form of a concentration of electives, all report tremendous popularity among students. At Rensselaer Polytechnic Institute, 100% of the MBA students take one of the eight entrepreneurship classes available, up from only 15% who took the single course offered five years ago. At Stanford University, 90% take at least one of the B-school's nine courses. According to Jerome A. Katz, associate director of the Jefferson Smurfit Center for Entrepreneurial Studies at St. Louis University, schools have added 23 endowed positions in the past two years.

The study of entrepreneurs has come a long way since Myles Mace developed "Starting New Ventures" at Harvard University in 1946. Nowadays, courses focus on much more than how to get a small business started. Prospective MBAs learn about venture capital and commercialization of new products. They'll use the classic case-study method, supplemented by lectures from such prominent entrepreneurs as Ted Turner and Frederick W. Smith, CEO of Federal Express Corp.

Are the courses making a difference? With the paucity of jobs for new MBAs in big corporations, many grads are starting their own businesses—because they have no alternative. "The way the job market looks today, running my own enterprises seemed like a logical choice," says Mark Junkunc, who earned his MBA last June from the University of California at Los Angeles' Anderson Graduate School of Management. He owns a cafe and is now pursuing other business ideas.

Junkunc is not alone. Almost 22% of Anderson's 1993 graduating class went into startups, buyouts, or businesses with fewer than 200 employees, according to Kathryn M. Van Ness, director of MBA career-management services at Anderson. "It's not as easy to see opportunities in big companies," she says. "Earlier MBAs knew if they went into big companies, they would be on the fast



(BOTTOM) PETER SIS

Even now, Chicago's scofflaws recall the sport warmly. ◆ You took a parking ticket. Folded it. Crumpled it. Then, simply booted it away. ◆ Thirteen thousand parking tickets written each day. Maybe, on a charitable day,

How A New Type Of Computer Put A Stop To One Of Chicago's Favorite SPORTS.

10 percent paid. ◆ But if you're thinking of playing that game these days, officials have one word of advice: Don't. ◆ Sun computers have been installed. And they are very, very effective. ◆ Claim the meter was broken, and a Hearing Officer will check a "meter database" on a Sun computer. Protest the ticket isn't yours, and a scanned image of the original is pulled from a database. Yell that you're in a hurry, and all these

jobs can be done at once, because Sun computers can do more than one job at once. ◆ "With document imaging based on Sun hardware, we save citizens time, and the city money," Judith Rice, Chicago's revenue director, proudly says. ◆ There's more to this story, of course — revenue increases of 400 percent, limiting property taxes — but it looks like our time is up. ◆ And you know what that means. ◆ Sun computers. Just the ticket, it seems, for the City of Chicago. ◆ More than 135,000 organizations are using Sun systems, powered by the SPARC™ chip and the Solaris™ operating environment, to gain a competitive edge. The City of Chicago is just one. To learn how you can benefit, call 1-800-426-5321, ext. 605.

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But if you take that away, they'll
'or it someplace else."
t everyone believes entrepreneur-
ed MBAs get the most for their
y. "Entrepreneurship is taught in a
ım because it's taught in the class-
" says Lee Roy Beach of the Uni-
y of Arizona. He worries MBAs may
an unrealistic view of the difficul-
f starting a business. But, he adds,
ɔetter than doing nothing at all."
ose with a predisposition toward new ventures are using what they've learned. Professor Gary Libecap at the University of Arizona's Karl Eller Center for the Study of the Private Market Economy says nearly half its graduates have launched companies in the past nine years. Adds Professor Dale Meyer of the University of Colorado at Boulder: "There's real momentum in the field. We're looking at the wave of the future."

As large corporations continue to restructure, and as startup businesses become even more of a factor in reshaping the economy, demand for courses on entrepreneurship is almost certain to continue. Skeptics may point out that schools have turned out few world-class entrepreneurs. But great entrepreneurs, like great artists, are probably born, not made. It's the rest of us who can use all the help we can get. □

HOW U.S. BUSINESS SCHOOLS TACKLE THE SUBJECT

SCHOOL	HIGHLIGHTS	NO. COURSES
BSON LLEGE ;on Park, Mass.	Entrepreneurship is the theme of the recently revamped MBA program.	4
LL STATE ;cie, Ind.	Students ask questions from miles away through interactive TV programs, which offer classes in entrepreneurship.	4
RNEGIE LLON ;burgh	Students enjoy close working relationships with faculty, even after graduation.	9
PAUL ;ago	Currently under contract with the federal government to build small-business development centers in Eastern Europe.	13
RVARD ;on	The first B-school to offer a course in the field (1946); has published three major texts on the subject and features three student competitions.	5
NNESAW LLEGE ;ietta, Ga.	The school has drawn raves from top academicians for its commitment to teaching entrepreneurship.	5
U rn) v York	Features training retreats for prospective student businesses and an entrepreneurship-in-residence program.	6
RTHWESTERN logg) ;ston, Ill.	Offers a solid major in the subject with close ties to the local business community.	6
:E (Jones) ;ston	One of the few places where you can learn about LBOs for small businesses in an entrepreneurial acquisitions course.	7
NSSELAER LYTECHNIC y, N.Y.	Keeping with the technological nature of the program, the school's entrepreneurship center is linked to a business incubator and a technology park.	8
SAN DIEGO STATE San Diego	About 40 schools participate in its North American Business Plan Competition.	7
SOUTHERN METHODIST (Cox) Dallas	MBA entrepreneurs can network with area venture capitalists at the Southwest Venture Forum.	4
STANFORD Stanford, Calif.	Extensive menu of electives available; a stone's throw away from the startup mecca of Silicon Valley.	12
UNIVERSITY OF ARIZONA (Eller) Tucson	Since 1984, 44% of the program's grads have started new businesses, for a total of 52 companies.	7
UNIVERSITY OF CALIFORNIA (Anderson) Los Angeles	New program will maintain an internal venture capital fund for student startups.	13
UNIVERSITY OF GEORGIA (Terry) Athens	Won tough state competitions, explaining their top showings in national contests.	6
UNIVERSITY OF ILLINOIS Urbana	Students judge entry into the Annual Entrepreneurship Hall of Fame for the Chicago area.	6
UNIVERSITY OF PENNSYLVANIA (Wharton) Philadelphia	Excellent research and $500,000 program fund to seed student businesses.	9
UNIVERSITY OF SOUTHERN CALIFORNIA Los Angeles	Business opportunities abound at L.A. Venture Network & Venture Management Assn.	7
UNIVERSITY OF TEXAS Austin	Home of the most courses in the subject; hosts MOOT CORP®, where the best schools converge for the Super Bowl of world business-plan competition.	15

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THE FREQUENT TRAVELER

BY PAUL BURNHAM FINNEY

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TAKING BREAKS ON BUSINESS TRIPS

It's the way to have a stealth vacation in the '90s.

Some executives like Stephen L. Baum, executive vice-president of San Diego Gas & Electric, rack up so many frequent-flier miles each year that dodging over to Kauai, Hawaii's Bali Ha'a island, or Aspen for a family vacation isn't much of a cost crunch.

Even so, Baum and other smart travelers know the score these days:

- Most corporate vacations have to be short, snappy and stealthy — with "bridges"

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·om Thursday to Tuesday
ll you can count on.
• Travel expenses are so
igh, particularly if you zip
ı and out of countries where
ıe dollar is a wimp, that it
ays to attach vacations to
usiness trips.
"We're reengineering
ːisure time," as one auto
ıarketing executive who fol-
ɔws that strategy puts it.

PLAY ETHIC

ɔome managers even won-
er whether a vacation can
e a vacation anymore, con-
idering the sophistication of
usiness communications.
Cellulars, if not portable
ɜxes, can make the beach a
andy office — at times.

"More and more people are having a tough time putting work out of their minds," says Barry Lubetkin, a New York psychologist who specializes in anxiety-related problems.

In fact, as executive-search consultants note, you're expected to leave detailed itineraries, including phone and fax numbers, with your assistant before taking off on a trip. Result: corporate messages await you even as you check in at a resort.

In any case, tacking vacations onto business trips is a definite trend, according to the U. S. Travel Data Center. Most executives who do that are attending conventions or trade shows — with two days the average stayover.

Global business travelers tend to stretch out those vacation breaks if the city is London, Paris, Hong Kong or a similarly irresistible spot. Once there, make the most of it — that's the reasoning.

But right here at home, from northern climes to the Sunbelt, travelers are grabbing onto the deals that hotels are offering to help you segue from work to play.

THE FREQUENT TRAVELER

SMART STRATEGY

Don't overlook several key considerations:

• Choose your business hotel with vacationing very much in mind.

Even though your company may recommend a particular hotel with a negotiated rate, take advantage of all the corporate options available.

In Manhattan, for instance, you could stay at the Sheraton Center smack on Times Square, the cozy Park Sheraton in Murray Hill or the regal Sheraton St. Regis.

• Stay over a weekend so that you benefit from a Saturday night stopover with much lower airfare.

Coming into town for a two-day trade show on Sunday and then playing tourist from Wednesday evening through Saturday morning (and flying home to the kids) doesn't make much financial sense. You'll pay dearly for the far higher airfare.

• Research your side trips — from, say, Houston to Galveston or Orlando to Busch Gardens — so that you make the best use of your time.

You may want to book a weekend car rental and take off for the countryside — or go out on a day sail.

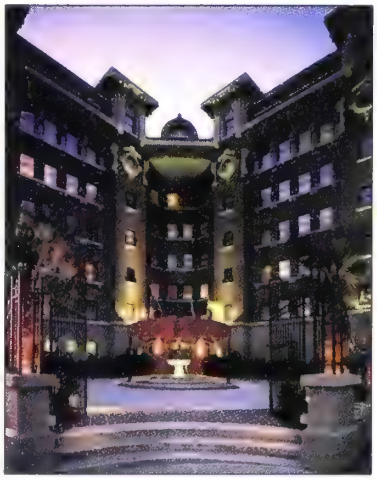
Whatever promotional packages hotels offer, they generally come down to two nights for one — with deals easily arranged for a third or fourth extra day — plus extras such as a continental breakfast or discounted tickets to tourist attractions.

During the winter business season, not all the rewards are in the Sunbelt. There's skiing, skating or just museum browsing in the Snowbelt to get your mind off of work.

Here are some top ideas for super-short vacations in key business centers. (Note the direct line to the hotel as well as "800" number — it's usually worth a call to the front desk to iron out special deals.)

CHILLING OUT ON THE WEST COAST

SEATTLE: Stroll through the food stalls of Pike Place Market. Go antiquing in historic Pioneer Square — with microbrewery pubs for a pause that refreshes.



Seattle's oppulent Sorrento Hotel.

Explore Puget Sound by ferry. Tour the gigantic 747 jumbo Jet assembly line at Boeing north of the city. And brunch at *Salish Lodge* (800/826-6124, 206/888-2556) at Snoqualmie Falls a half-hour drive into Washington's logging country.

Not bad for those extra vacation days — when you've always wanted to see Seattle. Two of your best bets for a lengthened stopover: the *Sheraton Seattle* (800/325-3535, 206/621-9000), renowned in the Pacific Northwest for the seafood and regional specialties in its modernistic restaurant, Fullers, and *Sorrento* (800/426-1265, 206/622-6400), a small, clubby member of Preferred Hotels — with comp limos, cellular phones and other helpful extras.

SAN FRANCISCO: If you're doing business in Silicon Valley, no one said you couldn't stay right in San Francisco and drive 45 minutes down the peninsula to appointments. Some of the valley's hamlets — and hotels — are strictly ho-hum. So, in your travel strategy, let the city by the Golden Gate Bridge romance you with its cutting-edge restaurants, risque cabarets and cultural splashes when you're not talking chips, computers and *Rising Sun* with electronics geniuses.

A good way to see San Francisco's skyline — with the Bay Bridge, Russian Hill and the pyramidal Transamerica tower among the landmarks — is to settle in at the *San Francisco Marriott*

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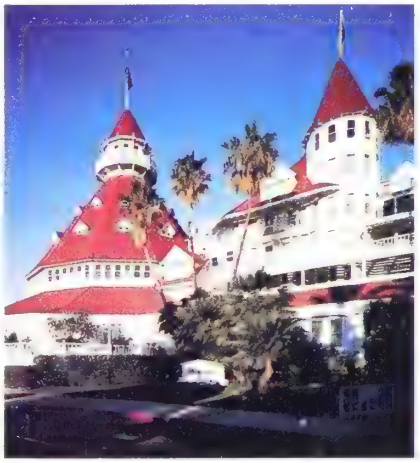
(800/228-9290, 415/896-1600) and have a drink or snack in the 39th floor View Lounge. The art deco hotel is in the middle of the city's born-again SoMa (South of Market Street) district where creative bistros and avant garde art galleries happily coexist.

Atop Nob Hill, the palatial *Fairmont* (800/562-1003) offers complimentary upgrades to a suite, if you're rooming in the President's Club, along with alluring weekend packages — with most tourist targets only a cable-car ride away.

LOS ANGELES: Flying into L. A. in the winter from northern cities is like lucking into a near-vacation. You may need a sweater, but usually it's sunny, warm and as loaded with divertissements as any town — anywhere. There are Steven Spielberg's special effects at Disneyland, the sensational Universal Studio tour (with train crashes, falling bridges, *Backdraft* fires and DeLorean sky rides), a stroll through the magnificent Getty Museum perched above the Pacific or simply a slow day's journey along Mullholand Drive for spectacular views of L.A.

If you park yourself at the *Ritz-Carlton* (800/241-3333, 213/823-1700), set in the waterscape of Marina del Rey 10 minutes from LAX, you can conduct business while soaking up the swimming-and-sailing ambience of one of L.A.'s loveliest locales. At Century City, built on the back lot of Twentieth-Century Fox in the heart of L.A.'s West Side, there's an action-packed pool scene — often used by fashion photographers — at *Westin's Century Plaza* (800/228-3000, 310/277-2000), a Sixties hotel designed by I. M. Pei but still classy enough to host the Oscar night banquet. Nearby are all the enticements of Beverly Hills. If you want to walk out your front door and into the shopping scene along Rodeo Drive, still a stunning array of top shops even in the austere Nineties, take a room or suite — with terrace or balcony — at the *Regent Beverly Wilshire* (800/545-4000, 310/275-5200) — it's a recently restored classic with magnificent marble, handsome woods and a grandeur befitting Quo Vadis.



The landmark del Coronado overlooks the Pacific in San Diego.

Just hope that your company is staging a meeting at the Spanish colonial *Four Seasons Biltmore* (800/332-3442, 805/969-2261), a beauty at seaside in Santa Barbara, with mountains as a backdrop, where staying on a few days can be a real treat. There are fireplaces in guest rooms to ward off mid-winter chills, along with privileges at a chic private swimming club.

SAN DIEGO: It's hard not to think of pleasures, along with business pressures, when you're in southern California's city with the perfect climate.

For diversions, downtown offers a nest of boutiques, bistros and bars called Horton Plaza, and across the long bridge is Coronado Island, a playground for tennis, golf and sailing buffs. And don't forget the much-acclaimed San Diego Zoo — or a trolley trip over the border to sample the treats of Tijuana.

The Victorian-style *del Coronado* (800/HOTEL-DEL 619/522-8000), with red-roofed turrets and tennis-white trim, is a retro delight that can easily serve as a base for doing business with San Diego's many electronics companies. Going modern? Try the tony new *Loews Coronado Bay* (800/235-6397), 619/424-4000) on a 15-acre peninsula all its own, with garden swimming pools, an 80-slip marina and five tennis courts. If you're not a beach

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nut and simply want to enjoy the city and its environs, check into the landmark *Ulysses S. Grant* (800/426-0670, 619/232-3121), looking a lot like the Peninsula in Hong Kong and chockablock with antiques. In a totally different mode — with gleaming, elliptical towers that provide grand views of the ocean, bay and city from the upper stories — is the resort-style *Marriott* (800/228-9290).

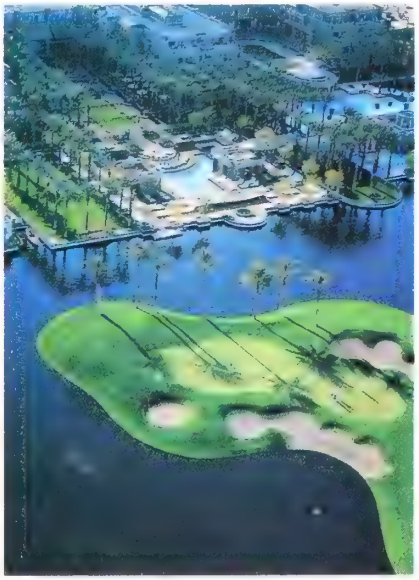
San Diego's "Silicon Beach" of high-tech companies stretches considerably northward. In suburban La Jolla the venerable, sophisticated *La Valencia* (800/451-0772, 619/454-0771) can easily mellow you over a weekend — with Pacific-view dining up top. And if golf is your nerve-soother, go another 10 minutes north to *La Costa Resort and Spa* (800/854-5000, 619/438-9111), which can fix you up with a loofah scrub or herbal wrap, tennis lessons with Pancho Segura or a round of golf on the course used by The Infiniti Tournament of Champions.

ESCAPING TO THE SUNBELT

PHOENIX: You may be visiting Allied Signal, America West, American Express, Dial, Honeywell, Motorola — or other blue-chip companies — in Arizona's boomtown, if you're not already spending a few days there at a convention. Blast-furnace hot in the summer, Phoenix is picture-perfect warm and dry in the winter, great for golf, swimming and a Friday-to-Tuesday break.

In Scottsdale, Phoenix's easterly sister city, is the casita-style *Stouffer Cottonwoods Resort* (800/468-3571, 602/991-1414), which offers the chain's bargain "Breakations" with welcome cocktail, continental breakfast and daily lunch included in the package and six golf courses nearby.

It's water, water almost everywhere at the ingeniously designed, 10-pool recreational layout attached to the *Hyatt Regency Scottsdale* (800/233-1234, 602/991-3388), and the 27 holes of golf on the old Gainey Ranch the resort occupies range from easy for beginners to demanding even for pros.



The golf course at the Hyatt Regency Scottsdale.

DALLAS: Imagine a fitness center that fills almost two acres — with a gym, indoor track, sauna, steambath, indoor and outoor pools, a sundeck and six tennis, eight raquetball and two squash courts. Where else do you find this but in the Verandah Club at *Loews Anatole* (800/235-6397/214/748-1200), the red-brick megahotel of Dallas. The city has plenty of top restaurants, from the Routh Street Cafe to the Palm and Morton's of Chicago, but the *Anatole* itself has its share of dining-out — or rather dining-in — establishments with Mediterranean cuisine at L'Entrecote, northern Mexican dishes in La Esquina and American specialties in the three-star Nana Grill.

A lot of business travelers on the Dallas circuit end up in Las Colinas, a microcosm of corporate America 20 minutes outside town. And your best refuge from work there is the *Four Seasons Resort and Club* (800/332-3442, 214/717-0700), which plays host to the annual GTE Byron Nelson Golf Classic. The aerobics-to-shiatsu spa gets your heart up to speed after the day's seminars or appointments. On the way into town you pass right by the Dallas Cowboys' stadium, so why not take in a game while weekending?

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HOUSTON: The sprawling Texas metropolis offers tourist delights as well as oil — with worthwhile side trips to see the NASA Space Center and the gingerbread houses and shops along the Gulf in Galveston. Three standouts for longer stays: the deluxe *Ritz-Carlton Houston* (800/241-3333, 713/840-7600) with sterling service and upper-crust patrons, the resort-like *Omni Houston* (800/332-3442, 713-843-6664) nestling in a park a mile from the boutique-packed Galleria and the *Doubletree at Post Oak* (800/222-8733), a majestic I. M. Pei-designed palace also close to top shops.

MIAMI: Watch fashion models pose in front of art deco cafes in South Beach. Combing through the designer boutiques and flea markets in Coconut Grove. Sample foods from Spanish tapas to fresh lobster at the Bayside Marketplace downtown. Or visit Little Havana on a stroll along Calle Ocho. Miami today is fast-forward with fun and froth.

Here are two fine hotels for stayovers, each with a personality all its own:

- The deluxe *Inter-Continental Miami* (800/327-0200,305/577-1000), a marble tower adjacent to the Marketplace with an outdoor pool and rooms with stunning views.
- The 2,400-acre *Doral Resort and Country Club* (800/223-6725, 305/592-2000) where you're only 20 minutes from downtown offices and only footsteps away from a Peter Burwash tennis complex and five championship golf courses.

CHICAGO: It's worth a stayover, even with icy winds off Lake Michigan. The museums, concerts, architecture and simply the views from atop the Hancock and Sears towers add up to a memorable two days — and in spring and summer the whole lakefront blossoms.

If you've seen *The Fugitive*, you practically know your way around the expensively renovated *Chicago Hilton and Towers* (800/465-4329, 312/922-4400) — Warner Brothers spent eight months shooting on the premises with scenes that include the Versailles-style Conrad Hilton Suite.

Overlooking Grant Park and the lake, the grand hotel is an oasis of diversions, from Kitty O'Shea's, great for Irish grog, to an enormous athletic club with pool and track. Be sure to ask for Hilton's "Bounceback" package.

Another top base camp for venturing around Chicago is the brand-new *Sheraton Hotel & Towers* (800/325-3535, 312/464-1000). It's right up against the Chicago River and close to the city's best shopping on Michigan Avenue, otherwise known as the "Magnificent Mile."

WASHINGTON: In the blur of a business trip to D.C. you can almost forget that Washington is one of the world's most beautiful — and intriguing — capitals. Now, with the heart-wrenching Holocaust Museum added to the list of must-see museums and other tourist sights, you'll find that extending your stay can be an eye-opener. And after you've done the museum circuit, stroll the quaint streets of Georgetown and

The Doral Resort is minutes away from downtown Miami.

SPECIAL ADVERTISING SECTION

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Alexandria — and carve out time for dinner at the Red Sage, Galileo and other restaurants where political luminaries hang out. Where to stay?

• The *JWMarriott* (800/228-9290, 202/393-2000). The chain's flagship, couldn't have a better location — within steps of the White House on Pennsylvania Avenue.

• The stylish *Wyndham Bristol* (800/822-4200, 202/955-6400) is away from D.C.'s mammoth government buildings and close to Georgetown's main stem.

NEW YORK: From the glitter of Broadway to the ateliers of Soho — and don't forget "Museum Mile" on upper Fifth Avenue — New York is a draw few other cities can equal.

What makes the *Peninsula* (800/223-6800, 212/247-2200) so different and so good for a few spare days after your Wall Street appointments? It's at Fifth and 55th almost across from Tiffany's. It's also the New York branch of a vaunted Far East chain known for its white-glove service. The spa on its upper floors is gorgeous — for its views as well as facilities, which incidentally include a bar and lunch buffet.

Now more refined than raunchy after a cleanup, Times Square has three hotel newcomers of note: the nation's fanciest *Embassy Suites* (800/362-2779, 212/719-1600) atop the Palace theater and all dolled up in cheery colors, the neon-knockout *Holiday Inn Crowne Plaza* (800/465-4329, 212/977-4000) with a 50-ft. indoor pool and a snazzy bar for Broadway-watching and the *New York Renaissance* (800/228-9898, 212/765-7676), handsomely corporate and catering to business travelers who want to just let go after work.

THE CONCORDE CORPORATE COMMUTE

Now hard-sided briefcases fit in the overhead bins.

"It's a time-management tool," says Peter Liney, group brands manager of British Airways (800 247-9297), neatly summing up Wall Street's continuing loyalty to the Concorde in the austere '90s.

The bullet-fast jetliner that wowed everyone from Preston Tisch to Johnny Carson with its westward schedule — you leave Heathrow on Flight 001 at 10:30 a. m. but arrive at JFK at 9:20 a. m. — is still luring wheeler-dealers, some of whom clean up business matters in a few hours and then catch the afternoon Concorde back to London in time for a good night's sleep.

Shed a tear for America's failure to develop an SST in the early '70s, but that's history. What's amazing is the 17-year-old fleet of seven British Airways Concordes (along with Air France's similar contingent) is still the fastest in the world, revving up to 1,350 miles per hour (Mach 2) some 25 minutes after takeoff. And the airline claims its star performers will see service — no serious worries about arthritis — well into the 21st century, with the year 2005 the target date for retirement.

Even with this monopoly on commercial speed, BA has just given each of its Concordes a major $1.5-million facelift.

• Overhead bins can now comfortably accommodate hard-sided briefcases.

The BA Concorde takes off on a time-saving trip to London.

• Between-seat armrests in the 2-2 configuration can now disappear — a nice extra if the adjoining seat is empty and you want to stretch out and nap. (You have to doze off fast to squeeze in sleep in the swift flight of only three hours 20 minutes.)

But for fast-trackers, the best news may be on the ground where BA has introduced a last-minute booking system — complete with boarding card — and a *Hertz* (800/654-3131) limo service to deliver you to your appointment at the other end. All of this for $6,999. Take into account the entire business day in London or New York you would otherwise have to pay for, without the Concorde's convenience, and the supersonic transatlantic shuttle makes a lot of bottom-line sense.

As Randy Petersen, editor and publisher of *InsideFlyer*, notes, "It's one way to earn frequent-flier miles — fast."

SPECIAL ADVERTISING SECTION

THE FREQUENT TRAVELER

ZOOMING AROUND EUROPE ON 'BULLET' TRAINS

A London-Paris rail commute is only months away.

Happily for business travelers on the European circuit, there's an easy answer to crowded airports and airfare sticker shock — trains that fly on the ground.

While the Japanese invented the "bullet" train for the Tokyo-Osaka run, the so-called *shinkansen* rarely goes faster than about 125 mph. On the Paris-Tours segment of the trip to Bordeaux, France's nifty TGV (Train à Grande Vitesse) routinely hits 185

THE FREQUENT TRAVELER

mph. And while the Germans play around with their glamorous, super-fast maglev (magnetic levitation) test trains, ICEs (InterCity Expresses) of conventional design speed between Wurzberg and Munich at 150 mph.

CHUNNEL VISION: In fact, on far more routes than you'll find in America, the train matches — or beats — the plane in Europe. It's an advantage that many U. S. executives acknowledge but then ignore when they plan a European swing around the EC.

Even the barrier of the English Channel is coming down. Next May the "Chunnel" directly linking Britain and France will open for business with autos and trucks riding on flatcars. And in late August comes the the mega-event, the first transport of business and leisure travelers through the 21-mile tube.

If all goes well, the less-than-four-hour TGV trip between Europe's two greatest business hubs, London and Paris, will take about the same time as a door-to-door commute by plane — assuming a one-hour flight and an hour-plus at each end for getting to and from the airport and checking in.

FAST FRENCH TRACK: In service since the early '80s, TGVs are now racing out of Paris all over the French landscape — and showing up across the border in Geneva (three-and-a-half hours), the French-speaking city loaded with international banks and corporate headquarters.

NORTH TO BRUSSELS: The newest TGV route is Paris-Lille (one hour), slated to be extended to Brussels (one hour and a quarter), the capital of the European Community, by 1996. The TGV operates out of the Gare du Nord, which happens to be a mess right now because of construction of facilities for Chunnel trains.

LYONS LINE: Heading for Lyons, France's second largest industrial city? Paris-Lyons was the first route of the TGV, with the now-familiar orange-colored "bullet" trains zipping in and out of Gare du Lyons.

The train is no longer just a showcase on wheels. Today, there are 20 TGVs daily in each direction on the Paris-Lyons run (about two hours). And you can use charge cards to buy tickets from machines. Some of the trains, by the way, proceed farther south to Marseilles.

HEADING FOR TOULOUSE: You can tear out to Brittany — west of Paris — on the TGV (two hours).

But you're more likely to be doing business in Bordeaux and Toulouse to the southwest. And there you have a choice of 22 TGVs daily, all in blue livery with private, commodious seats and compartments beloved by executives. You catch trains for the Paris-Bordeaux run (three hours) at Gare du Montparnasse, a rail station rebuilt with

Germany's InterCity Expresses race from Hamburg to Munich.

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THE FREQUENT TRAVELER

great fanfare but unfortunately chaotic because of the pileup of suburban and long-distance traffic.

About a half dozen trains go on to Toulouse on a pokey branch line (two hours to cover just 160 miles). The city is a turnstile for executives visiting Aerospatiale, the European aerospace conglomerate that produces the Airbus series — it's like going to Seattle to see Boeing. There's a question, in this case, whether you might just as well hop aboard a one-hour Air Inter flight out of Orly rather than waste a half day on the train.

PLANE TO TRAIN: To neaten up the whole network, France's SNCF is opening a terminal next June at Charles de Gaulle International Airport where trains from the north will connect with those going south.

With the Chunnel in business, you'll be able to board a train in London and go by rail all the way to Lyons — without taxiing from one station to another in Paris. (That's a tradeoff of efficiency and cost saving vs. the esthetic delights of the Parisian street scene.)

Adds Dagobert Scher, CEO of Rail Europe Inc., "You'll fly into Charles de Gaulle, go down the staircase and pick up a TGV to Lyons or Dijon or Lille."

RAIL AUTOBAHN: While experimenting with maglev technology, the Deutsch Bundesbahn (German Railways) maintains a first-rate schedule of high-speed trains that link major business cities. Intercity expresses roll swiftly past factory towns and along the Rhine River in the great business arc that sweeps from Hamburg in the north through Duesseldorf, Frankfurt and Stuttgart to Munich.

Even though some German executives are incorrigible car commuters you'll be smart to take the train. That way you get there just as fast — with work done enroute. Even most of the older rolling stock has airline-style pulldown trays for writing memos enroute. A few trains have meeting facilities on board, complete with secretary or translator. Virtually all ICs provide phones and, in some cases, faxes.

If you're coming off of an international flight in Frankfurt, one nice extra provided by *Lufthansa* (800-645-3880) is a rail-or-plane option to Duesseldorf or Stuttgart. For instance, if you buy a N.Y.-Stuttgart ticket on Lufthansa in any class — first, business or coach — you can take a special IC train out of Frankfurt to Stuttgart. Land in "Bankfurt" (as wags like to call it) at 8 a.m., catch the Lufthansa IC downtown at 9:16 a.m. and arrive in Germany's auto city at 10:40 a.m.

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TRAVEL UPDATES

Tips and more for the travelling businessperson.

TRANS WORLD WONDER

Look before you leap to conclusions — particularly in the volatile travel industry.

Yesterday, *TWA* (800/221-2000) was another has-been, like Pan Am. Today, owned by 25,000 employees and a handful of creditors rather than financial gymnast Carl Icahn, the airline that Howard Hughes put on the global map is flying high — with roomy coach seats called Comfort Class.

For frequent travelers whose best moments on a trip can come down to a user-friendly seat pitch, the difference is dazzling.

"The new seats were great," says Linda Rice, a former executive with Sotheby's and the New York Times Company who recently flew JFK to San Diego on TWA. "They're more spacious — widthwise and between you and the guy in front. The attitude of the cabin crew was wonderful. One talked to me about how much they're all committed to the airline — very sincere rah, rah stuff. On the four segments on my trip I got some good meals — and more than just a cookie."

Coach Class is about the closest you can get to business class for the price. It has 50% more legroom, footrests usually found only in first and business class, hot towels and comp cocktails and entertainment on transatlantic flights. No wonder it emerged a winner in a Consumer Reports analysis.

"Passenger surveys showed that coach passengers feel that airlines take their business for granted, providing them with limited space and few, if any, amenities," says Bob Cozzi, TWA's senior vice president of marketing. So the airline removed an average of one out of every eight seats in its entire fleet of wide-bodied 747s, 767s and L-1011s. Now you can stretch out without annoying the passenger behind.

One nice plus for corporate travelers: a comfortable flight even when your company's tight travel budget requires you to sit in the back of the plane.

ONE-STOP HOTEL SHOPPING

Between fax, phone, newspaper and other niggling charges at hotels you can feel caught in a money-eating machine when you're on the road. With those irritants in mind, *Radisson* (800/333-3333) is pioneering a new all-inclusive room rate that other hotel chains are already beginning to copy. Radisson calls it Business Class, just like the airline industry's highly successful cabin section.

"For an extra $10 to $15 you get coffee, a full breakfast, newspapers of your choice, phone calls without access charges, faxes at phone rates," says Geof Rochester, Radisson's vice-president of marketing. "They've all been major annoyances to corporate travelers. Anyone in business resents the kind of pricing where you pay $4 to $5 per page for a fax. We're elminating the hassle."

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ITT Sheraton

OUR WORLD REVOLVES AROUND YOU

SPECIAL ADVERTISING SECTION

THE FREQUENT TRAVELER

SINGAPORE FLING

Part of Singapore's spit-and-polish business image comes from its best salesman, *Singapore Airlines* (800/742-3333), consistently rated by many corporate travelers as their carrier of choice.

- It has a young fleet, mostly 747-400s with personal video screens.
- You can phone ($8 a minute) or fax ($15 per transmitted page) virtually anywhere on Singapore's global network.
- With its "Easy Meal" system you can dine when you choose rather than conform to a regimented schedule.
- Long catering to West Coasters flying trans-Pacific, the airline is now smartly providing service eastward through Europe to its home base in Singapore. The L.A.-Zurich leg over the Pole is already popular.

Next month the carrier will shift the European stopover on its N.Y.-Singapore run from Brussels, the EC's capital but a second-rate hub, to Amsterdam, where you can easily make connections to other European cities at Schiphol Airport.

In the offing aboard Singapore's fleet: fax reception for the business traveler who refuses to let go — even at 39,000 feet.

GOODBYE TO STAPLETON

Denver Goes Big Time With Its New Airport.

Every business traveler worth a few frequent-flier points has had to endure the weather delays at Denver's infamous, mile-high Stapleton Airport. Apparently, only the Pope and President Clinton, recently in town for World Youth Day, arrived and departed without incident. ("The Secret Service prohibited any other planes in the air for 10 minutes before and after Air Force I," as an airport, operative noted.)

Come December 19, give or take construction delays, Stapleton's $2.7-billion standin — Denver International Airport — will take over. It's the first newly built American airport since Dallas/Ft. Worth in 1974 — and twice D/FW's size. That puts it on the scale of about two Manhattan islands.

Modeled after Atlanta's Hartsfield, with an underground people mover connecting three parallel gate concourses, the newcomer should quell critics who raged when Stapleton came to a near standstill in only moderately difficult weather.

"Stapleton's two runways are too close together — only 1,100 feet apart," says spokesman Greg Baker, noting how the airport can't expand because it's hemmed in by residential buildings and the Rocky Mountain Arsenal. "Even when the weather's fine, just a few low-lying clouds can limit us to using one. The flow rate may be reduced to only 34 planes an hour against 88 in good weather.

"We've got a lot more separation — 4,300 feet — at Denver International. And we have five runways, three north-south and two east-west."

But frequent business visitors are already beginning to look back fondly on Stapleton's convenient location. "It's one of the last true in-town airports — only seven miles from downtown Denver," notes Baker.

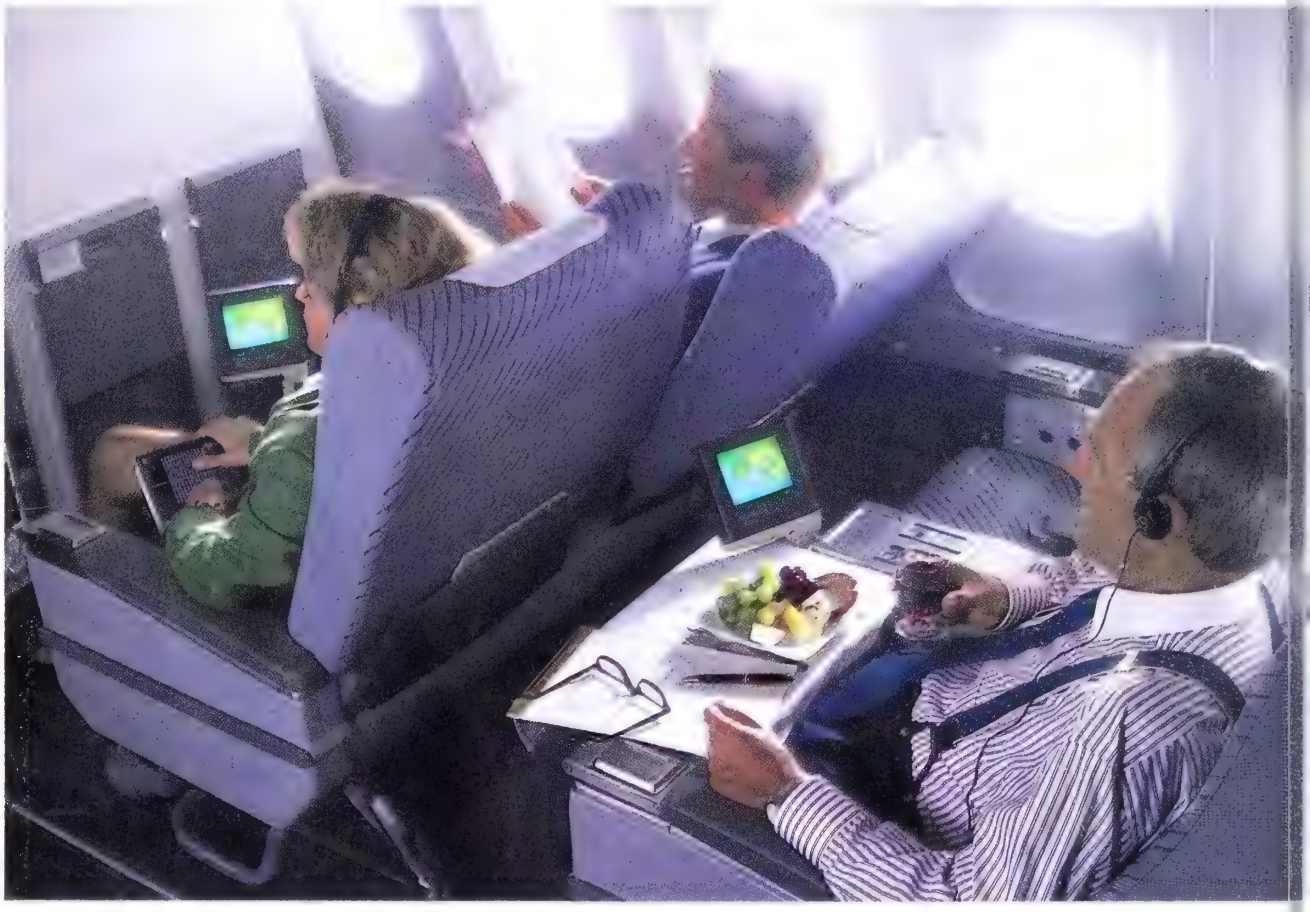
Be prepared for a longer hike of some 17 miles east of downtown to get to the farmlands where you'll soon take the plane. And it can be icy cold on the worst winter days. Head out on I-70 and then turn onto the brand-new Pena Boulevard for the remaining 13 miles to the main terminal.

The $35 taxi fare, compared to the $10 at Stapleton may seem formidable. But you can pay that at JFK, LAX and foreign airports.

"You won't get bottlenecks at the new airport," says Baker confidently. "We'll handle 99 planes an hour."

But if you want a room for the night, you'll have to schlepp into town — until the hotel chains get busy and build. You may even have to sleep at one of the very good hotels: *Embassy Suites* (800/345-0087), *Red Lion* (800/547-8010), *Sheraton* (800/328-2268), *Stapleton Plaza and Fitness Center* (800/950-6070) or *Stouffer Concourse* (800/468-3571) right around Stapleton.

Workers' Compensation.



Imagine a place where hard work is rewarded by hours of indulgence. Where award-winning cuisine fills your plate and CD quality sound fills your ears. Where your eyes feast on your own personal video monitor with a wide selection of programs. Where extra wide seats, swivel tables, integral footrests and enhanced recline provide a unique feeling of freedom and movement. With the introduction of the world's most advanced aircraft, the A340, and the redesign of our 747s, Lufthansa is setting new standards for Business and First Class comfort. All this in addition to the premium European service we continue to offer on every one of our flights. And surprisingly, all without a premium price. So since you work hard, fly the airline that assures you the compensation you deserve.

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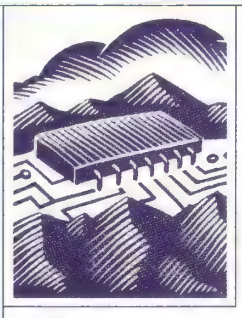
HEAVENLY VALLEY

RIVER ROUGE IT AIN'T: AEROBICS IN ORACLE'S POOL

Sure, Silicon Valley has problems—smog, sprawl, and costly labor among them. But it's still the place to pursue your heart's desire



BY RICHARD BRANDT

More than half a century ago, two Stanford University engineering graduates set up shop in a Palo Alto garage, giving birth not only to Hewlett-Packard Co. but also to the legend of California's Silicon Valley. When Bill Hewlett and David Packard went to work creating primitive electronic instruments, the valley, sandwiched between San Francisco Bay and the hills that protect it from the chilling ocean fog, was a sleepy farm area planted with apricot and plum trees. It was known locally as the valley of the heart's delight because of its scenic hills and the pleasant weather—always drier and warmer than San Francisco's.

Despite competition from other would-be high-tech meccas and a growing list of ills, this is still the place where eager entrepreneurs pursue their hearts' desire. Ask Pierre-Alain Cotte. Two years ago, the 42-year-old Frenchman, already a successful entrepreneur in Europe, literally dreamed up the idea for his new company. He went to bed wondering why computers had never reduced the amount of paper on our desks, and before he woke up he had a solution: a simple scanner that can digitize a paper document and send it to anybody on an electronic-mail network in seconds. With the right backing, engineering, and marketing, he felt he could make a scanner that was cheaper and easier to use than any on the market—and build a billion-dollar business. So, like thousands before him, he headed for Silicon Valley.

In October, Cotte announced his product,

MARC PORAT PHILOSOPHER OF THE SHARED VISION

In Silicon Valley, "vision" is more important than your alma mater or your pedigree. And when it comes to the vision thing, it's hard to beat what Marc Porat sees from behind his horn-rimmed glasses.

For years, Porat has been thinking about how computers, communications, and information converge and how people will be able to communicate anywhere with handheld devices. Today, "digital convergence" is conventional wisdom. But Porat saw it back in 1976, when he wrote The Information Economy, *his doctoral dissertation. "There's a straight line from PhD to what I'm working on today," he says.*

Now, as president and chief executive of General Magic Inc., he's creating two chunks of software for the wireless age. He's also on the cutting edge of another Valley trend: Instead of venture capitalists, his backers are technology companies that have paid some $40 million to get what's in his labs. They include Apple Computer, American Telephone & Telegraph, Sony, Motorola, Matsushita Electric, and Philips. IBM has discussed joining the group, too.

True to Silicon Valley legend, General Magic began on the back of a paper napkin—actually a paper tablecloth. In a French restaurant in New York, Porat used a crayon to scratch out the concept. He took that tablecloth to Apple, where he was working in the Advanced Technology Group. An internal project, codenamed Pocket Crystal, was born, then was spun out as General Magic in 1990. Porat's team includes Andy Hertzfeld and Bill Atkinson, members of the Macintosh development team.

Porat, 45, remains the resident big thinker. His philosophy? "Make sure there is a vision in the company—a shared vision—that is so powerful that once a person joins the family, they barely have to be reminded of what to do." His biggest job: balancing the often-conflicting desires of six big partners. Says Apple Computer Chairman John Sculley: "Marc has done a brilliant job of building alliances with an extremely diverse set of companies."

Porat may also need to do a brilliant sales job soon. Next year, General Magic's products will be ready for licensing. All the partners are expected to license Telescript, messaging software that works in everything from phones to pagers. But Magic Cap, a communications operating system, faces competition from Tandy, Casio, and Microsoft, as well as from partners Apple and AT&T. If Porat's worried, it doesn't show. Maybe he's just busy thinking.

By Kathy Rebello in Mountain View, Calif.

PaperMax, which will sell for $5
Whether or not his company succee
his high-speed journey to this po
shows why Silicon Valley is still the b
business incubator around. Arrivin
Palo Alto in January, 1992, Cotte cal
several Silicon Valley entrepreneurs a
venture capitalists he had met over
years and pitched his idea to them a
lunch at Rickey's Hyatt, a Valley la
mark. By the end of the meal, he h
$250,000 to seed his company, which
named Visioneer. A year later, he ha
business plan, 10 board members, a s
en-person management team, a pro
type, and $5.5 million in venture ca
tal. "It was tremendous to find so ma
people with so much talent," says Co
"No other place in the world has th

Therein lies the Valley's most end
ing strength: a concentration of techni
marketing, financial, and manage
knowhow that can't be matched a
where. While other great industrial c
ters of the past boasted access to, s
water power or critical raw materi
such as coal, Silicon Valley has but
natural resource—rich deposits of bra
power. The most fundamental are t
technical smarts that the engineers, p
grammers, and researchers bring fr
all over the world when they arrive
work here. But other assets are equa
important: the scores of venture capi
ists, consultants, accountants, and la
yers who have made a veritable indus
out of new-company creation.

Scattered throughout industrial pa
from San Mateo to San Jose are score
consulting firms: chip designers, s
ware writers, manufacturing experts,
dustrial designers, and marketing c
sultants—many of them just two-
three-person shops set up by refug
from some of Silicon Valley's top co
panies. "The Virtual Corporation c
come together here," says valley ve
ran Regis McKenna, chief executive
ficer of Regis McKenna Inc., a mark
ing consulting firm. And, perha
because everybody's on the prowl
new ideas, it's surprisingly easy to pi
the brains of the experts at the big co
panies, too. "You can pick up the pho
and call almost any company and g
advice," says McKenna.

The final ingredient is simply wh
you might call a positive mental at
tude: Success breeds success, and t
locals know that it's not crazy to thi
that an off-the-wall idea can turn in
something big. Everybody has seen
happen. "I would be shocked to find
engineer who didn't know somebo
who made a million bucks here," sa

EXERCISING THE FRANCHISE

The Business Choice For The 21st Century

uring the past year, stories of business disasters have become a staple of the media. You can't open a newspaper or magazine, or turn on the television or radio, out coming face to face with the side effects of talled economy: never ending stories about the n-sizing of corporate America run alongside tales nall businesses going belly-up. But throughout eriod of economic turmoil, one type of business continued to grow and thrive: the franchise.

n the past year, while the rest of the economy stumbling, the franchising industry produced than 20,000 new businesses which in turn ted more than 100,000 new jobs. While other nesses were struggling to stop the flow of nk, revenues of franchises were growing een six and eight percent.

During this prolonged period of economic uncer-, franchising has actually firmed up its founda-

There are today over 540,000 franchise business- the United States. These account for more than billion in annual sales.

t's become clear that franchising is the busi- structure of choice for the savvy 21st century epreneur, offering the single best opportunity n dreams of independence into reality.

A franchisee has a four times greater chance cceed than an entrepreneur who launches a independent business; and two times greater an entrepreneur who buys an existing, non- hised business.

More Americans than ever before are relocating effort to improve their quality of life. Those who just moved to a new area look for names they nize and trust, giving franchises an edge over independent stores.

Franchises are businesses with track records. While the hands-on running of an individual store or enterprise is up to the entrepreneur, he or she will be offering products or services with a history of financial and marketing success.

• Franchises provide the advantages of a large organization to a small business person. Because the franchisor, or parent company, is eager for its franchisees to succeed, it provides training and ongoing support. In addition, franchises can often count on national and/or regional advertising support out of the reach of other small, fledgling businesses.

• The start-up costs of franchises are significantly lower than those of an independent business. Franchising is one of the few ways an individual can go into business for him or herself without having to risk tremendous amounts of personal assets and investments.

• Franchising offers entrepreneurs a chance to leverage success. The individual success of any one franchised business benefits every other franchisee as well as the franchisor. In effect, the entrepreneur who buys and operates a franchise has a family of silent partners who are contributing to his or her success.

• Since most franchisors limit the number of operations in any given area, the value of each individual franchise increases as the company grows. The owner of a franchise has a limited edition which cannot be copied, while the owner of an independent business has something which can be duplicated ad infinitum.

Whether you're just disheartened by the current lack of corporate loyalty, or have actually been down-sized out of a job, franchising offers the best option for taking charge of your own life and career.

Do you have what it takes to be a successful franchisee?

But before you jump head first into franchising you need to take a long, hard, honest look at whether you

BY STEPHEN M. POLLAN AND MARK LEVINE

have the right combination of skills and personality traits to succeed as a franchisee.

Conduct a personality analysis, looking for the traits necessary for entrepreneurial success. Do you have common sense? Are you willing to work hard, for long hours, and take on responsibilities that may be new to you? Do you interact well with people? Can you be an aggressive salesperson? Are you good at conveying enthusiasm to others? Are you goal-oriented? Are you well-equipped to handle stress? And finally, are you willing to do whatever it takes to succeed?

Unlike entrepreneurs who are starting a business from scratch or buying an existing business, potential franchisees need to consider other areas of their personality. Do you have the ability to maintain a sense of individuality while being part of a larger group? Are you willing to sacrifice a modicum of autonomy to follow certain rules set down by the franchisor, whether it's a particular way of doing inventory control or deciding where the business will be located? Finally, are you prepared to put some of your creativity on ice, at least in the beginning?

Your answer to this question on creativity is very important. Remember: one of the appeals of a buying a franchise is its proven methods for success. Those "methods" may preclude your having any say in the franchisor's ad campaign or being able to introduce a new way of doing things.

While many successful franchisees learn by doing, you'll be at an advantage if you can draw fr past work experience and put your talents to wo for you at your new venture. A knowledge of accounting and the ability to understand and gen ate financial statements and projections can be helpful, as is familiarity with marketing. A previou history in sales will be beneficial. The same hold true for personnel management, since you'll nee be confident in your ability to interview, hire, ma age, and, if need be, fire employees. It also won't hurt if you have the skills and experience to be a highly organized record keeper and a crack mark researcher. And obviously, purchasing a franchis an industry in which you've had previous experie provides you with an edge.

More than anything else, before you make the leap into franchising you need to be clear about yo motives. Ask yourself: What do I really want? Wha would fulfill and satisfy me? How much do I need t take care of my family in a reasonable way? Mate rewards are of course important, but they can no longer be the only means of measuring success. Instead, you should ask how you can best achieve life of satisfaction and reasonable comfort. The answer may be: buy a franchise.

"It's about communication between people. The rest is technology."

LARS RAMQVIST, President and Chief Executive Officer, Ericsson.

We expect to be able to communicate with anyone, at any time, anywhere. We want to be liberated from the constraints of time and space. Distances are shrinking. Traditional boundaries are losing their significance.
We want technology to work for us as individuals. We expect it to meet our sophisticated communications needs, but still be easy to use.
We expect technology to provide us with global freedom, and at the same time respect our privacy as individuals. It should allow us to reach others, but make ourselves available on our terms.
Today's technology makes almost anything possible. It is you and I who set the limits.

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ERICSSON

od Khosla, a co-founder of Sun Mi-systems Inc. and now a venture cap-list. High-tech entrepreneurialism minates the local culture and shapes lifestyle (page 182). "A taxi driver Silicon Valley is likely to know more ut venture capital than a venture cap-ist in St. Louis," says Arthur C. Pat-on, a partner at Accel Partners, a San ncisco venture-capital firm.

o be sure, Silicon Valley isn't quite wide-open frontier it once was. "It is der to be a cowboy in a garage to-," notes McKenna. "The venture italists today understand that we are more competitive world. You've got have a business model, not just a duct model."

ome Silicon Valley old-timers grum-about today's slick young MBAs and yers, and they worry that the start-process has become so sophisticated the most creative ideas may not get ough. But such sentiments may re-t a nostalgia for a Silicon Valley that er really was. "I don't think things that different," says Seagate Tech-gy Chief Executive Alan F. Shugart, founded his first disk-drive compa-Shugart Associates, back in 1973. ven then, an entrepreneur had to e a thorough business plan and plau-e data to make his case. The differ-e was that then, he had to do the k himself. Now, you can buy it. Says gart: "There's market research on thing you want."

lmost everybody agrees, however, t success has come at a price. The e-bucolic region is carpeted with sub-an sprawl, complete with Los An-es-style traffic and growing smog. using costs (the median house price 260,000) are the highest in the state, labor rates are so steep that manu-uring jobs continue to disappear. m 1984 to 1991, the number of jobs he area grew less than 10%, less than the national rate, the result of a net of some 40,000 manufacturing jobs. ast year, a group of business leaders ched Joint Venture Silicon Valley to ress these problems. Its mission: to e sure the infrastructure for creat-new companies remains intact and ry to deal with some of the quality-fe issues—before the Valley suffers a in drain to such places as Austin, ., and Seattle. High-tech companies hose cities now emphasize their saf-cheaper, and more relaxed lifestyles en recruiting in the Valley.

or now, however, Silicon Valley is in e danger of being eclipsed. The best dence: It continues to attract rising

ELI HARARI THINKING 'LIKE AN ELECTRON'

He has more years and less hair than the stereotypical Silicon Valley entrepreneur. But 48-year-old Eli Harari has the crucial attributes: technical smarts, consuming ambition—and a novel way of seeing things. When he was a youth growing up in Israel, he recalls, he knew that he would go into electronics someday. "I was always trying to think like an electron," he says.

Eventually, he managed to learn to think like an entrepreneur, too. SunDisk Corp., the company that he started in 1988, has an early lead in one of the hottest markets of the mobile-computing age: rugged "flash" memory cards. The business-card-size devices store up to 20 million bytes of data on special chips and use 95% less power than the tiniest disk drives—ideal for tiny personal computers. In 1992, its first full year, SunDisk logged $22 million in sales—giving it 63% of the market, says market researcher AP Research.

SunDisk's smooth launch may be a result of Harari's long experience. After earning a PhD in solid-state sciences at Princeton University, he learned chipmaking at Hughes Aircraft, Intel, and Honeywell. In 1983, he caught Valley fever and started WaferScale Integration Inc. But WaferScale tried to do too much—both logic and memory chips. "I made an incredible number of mistakes," Harari now admits.

RISING STARS

At SunDisk, he is going to have to use everything he has learned up till now, because the competition is so stiff—Intel, Advanced Micro Devices, and the team of Toshiba and IBM (although IBM PC Co. remains a customer). So far, Harari's technical expertise—he holds more than a dozen chip patents—has kept SunDisk in the lead.

One big advantage: Because its cards mimic disk drives, no new software is needed to use them in most PCs. Intel, however, is working with drivemaker Conner Peripherals Inc. to make a flash card similar to SunDisk's.

Harari has his own heavyweight partners. American Telephone & Telegraph Co. provided startup funding, and recently, disk-drive giant Seagate Technology Inc. bought a 25% stake and agreed to market SunDisk cards. The company boasts among its customers IBM, Hewlett-Packard, Tandy, and AST Research.

SunDisk has been "a lot more fun" than his previous startup, but Harari hopes it's his last. He spends his "leisure" time reading technical journals, and "vacations" are two-day weekends. "My son once called me 'the invisible father,'" he laments. "I need to learn to delegate better." For entrepreneurs of any age, some things just never change.

By Robert D. Hof in Santa Clara, Calif.

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rs in everything from biotech to mem-
chips (sidebars). A recent study by
gnetics Inc., a Cambridge (Mass.) ec-
omic consulting firm, rated Sunny-
e, at the heart of Silicon Valley, as the
st entrepreneurial hot spot among re-
ns of comparable size in the country.
ntureOne, a San Francisco research
n that follows the venture-capital in-
stry, found that 59 venture capital-
ked companies were launched in the
n Francisco Bay Area last year, ac-
inting for more than one-third of
152 venture-backed companies
were begun nationwide. Massachus-
ts, by contrast, started just 16.
That's not surprising, considering the
ncentration of venture investors. Ac-
ding to VentureOne, 22% of the
ntry's venture-capital firms are based
have offices in the Bay Area. That
npares with 15% in all of New York
e, and 13% in Massachusetts. Many
the top firms—including Technolo-
Venture Investors, Mayfield Fund,
Institutional Venture Partners—clus-
along Sand Hill Road in Menlo Park,
ere they review thousands of busi-
s plans a year.
ome $800 million of the $2.5 billion
venture capital invested in the U.S.
year went to startups in Northern
ifornia, mostly in the Valley, reckons
ture Economics, a market research-
The hottest areas are medical tech-
ogy and biotech—including a cluster
startups in Emeryville, near Berke-
—and certain software categories.
e hottest of those are networking and
ltimedia. Dozens of multimedia start-
have been funded, many nestling
'Multimedia Gulch," in San Francis-
South of Market neighborhood.
High-tech entrepreneurs may be
pted by the more family-friendly at-
sphere of Silicon Forest in Portland,
. And investors would certainly ap-
ciate the tax incentives offered by
es such as Scotland's Silicon Glen.
in the end, startups stay here—for
massive base of talent and know-
. Indeed, no other area that has set
to clone Silicon Valley has come
e. Perhaps one reason they can't is
ause the way the Valley came about
erendipity itself.
he first lucky break was having two
versities in close proximity with
ngths in business and engineering—
University of California at Berkeley
Stanford. By the first decade of this
tury, Stanford was already spinning
small electronics companies based
he new vacuum-tube technology.
he next bit of luck was the timing:

DAVID GOEDDEL HOTTEST OF THE GENE-SPLICERS

From their windy, bayside perch in South San Francisco, at Silicon Valley's northern gate, scientists at Genentech Inc. have never had much to do with bits, bytes, or their computer-biz brethren. But biotech's gene-jocks can match any Valley-boy programmers or chip designers in intensity: Genentech's first scientist—David V. Goeddel, a lanky molecular biologist—has put in 15 years of 80- and 90-hour weeks, making him one of the industry's most prolific gene-splicers. His brand of both rigorous and blisteringly fast science has helped make Genentech a biotech juggernaut that now has its pick of the brightest academic scientists—the ones who once would have shunned commercial science.

Success led in 1990 to an offer that Genentech's founders couldn't refuse: Roche Ltd. paid $2.1 billion for 60% of the company, setting up more than a few employees for life. But the entrepreneurial bug dies hard, and several "GenenExers" have now launched a spate of startups across the valley—repeating the pattern of spinouts that sprang from chipmakers in the 1970s.

Goeddel had been a holdout—because, he says, Genentech remained committed to giving him the freedom he required. Plus, he watched some former colleagues grow frustrated at the slower pace and scarcer resources of tiny startups. Even now, he says, "it's pretty intimidating to think about leaving."

But Goeddel, who climbs mountains and fishes in his spare time, has finally seen a new peak worth attempting. In March, he agreed to join two-year-old startup Tularik Inc. as vice-president for research. The company is researching rare substances called transcription factors, proteins that turn human genes on and off. Some day, Tularik scientists say, it may be possible to create drugs that shut down cancerous growths or lethal viruses at the DNA level.

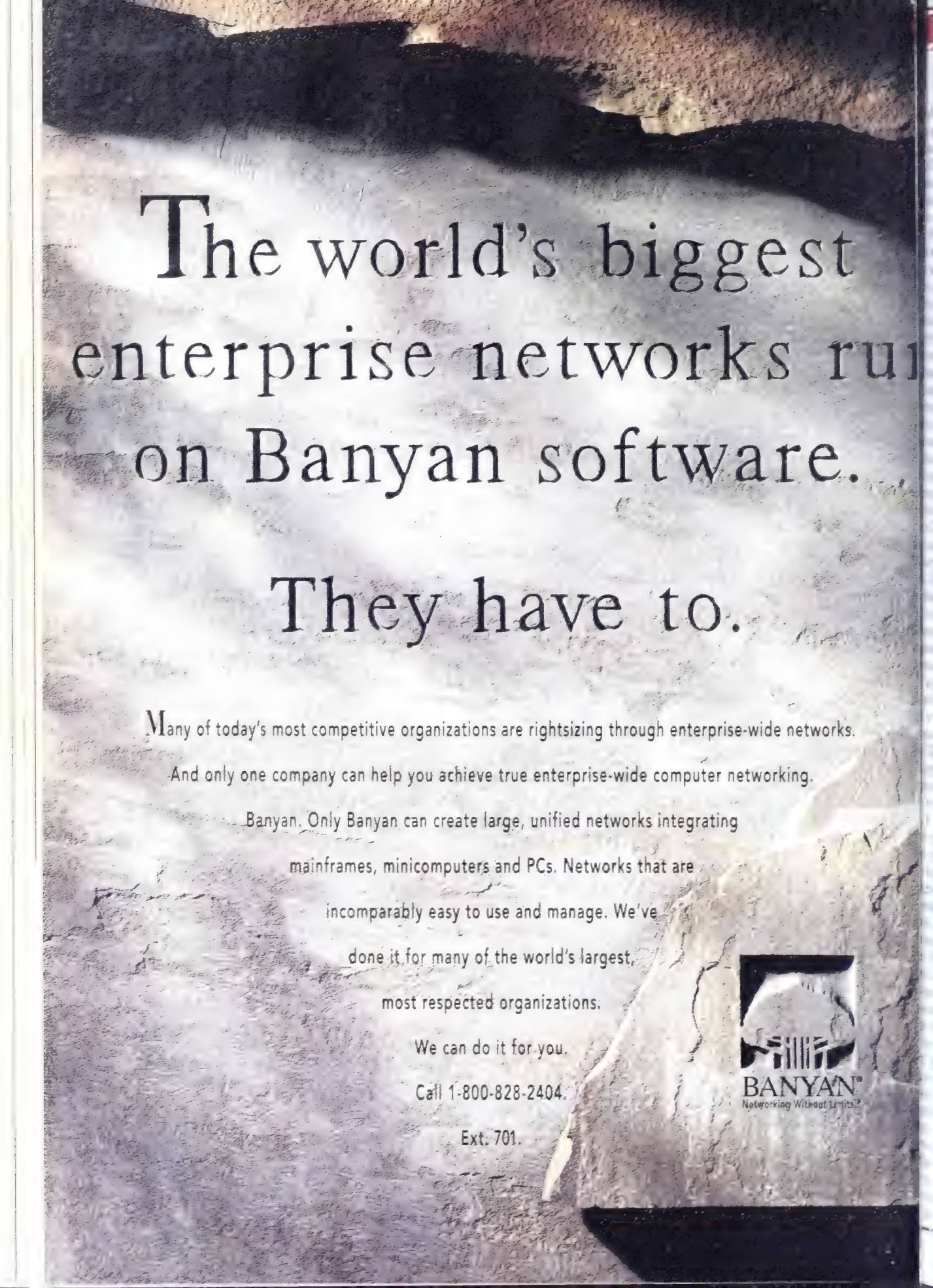
Of course, Goeddel is already rich, and he has won all sorts of industry accolades, so a new venture has to have some fun in it, too. In addition to a new challenge, Tularik offers the chance to work with two high-profile scientists who are Goeddel's professional and fishing buddies: co-founders Steven L. McKnight of Carnegie Institute and Robert Tijan of the University of California at Berkeley. "This was our idea, and that made the difference," Goeddel says.

RISING STARS

Goeddel is the first to admit that Tularik is a risky venture. Indeed, if the transcription factors had been easier to sort out, Genentech might have funded the research. Goeddel's name-recognition has brought additional credibility to Tularik, helping the company raise $30 million. Goeddel has also recruited several other GenenExers to work at Tularik.

Goeddel vows to continue the tradition of scientific rigor he is known for. But that should be easier these days. Thanks to him and other hot gene-splicers, going into industry is no longer a stain on the career of a young PhD. "Industry science has established itself as the equal of what goes on in academia." And that promises still more enterprise for this still-young industry.

By Joan O'C. Hamilton in South San Francisco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early Silicon Valley companies blos-ied in the 1950s, as the nation's post- economy was booming and the De-se Dept. was pumping money into infant electronics industry to create gadgetry for the cold war.

ith the arrival of integrated circuits ie 1960s, the Valley really took off. It ed when William Shockley, a Valley ve who had headed the Bell Labor-ies team that invented the transis- decided to come home. He opened ckley Laboratories Inc., and one of early hires was Robert N. Noyce, a nventor of the semiconductor chip later co-founder of Fairchild Semi-ductor. Fairchild, which was roiled nternal management feuds, pro-ed the engineer-entrepreneurs who t on to found or build Intel, Nation-emiconductor, and Advanced Micro ices, among others, thus spawning ntire industry.

the 1970s, a distinct Silicon Valley of doing business had emerged. In part, the tone was set by Hewlett-ard. H-P blended smart manage-t, intensely hard work, creativity, risk-taking with an enlightened atti- toward employees that included itarianism and lush benefits. Other panies followed suit. "Hewlett-Pack-was the business school of the Val- says venture capitalist Patterson. nother important tradition that took was a high tolerance of failure. ple are encouraged to be creative," Charles O'Reilley, a professor of agement at Berkeley who studies orate culture in the Valley. "And 're not punished for failing." So if your last startup bombed, chanc-e you can get funding now—if you e up with the right product, the management team, and the right keting approach. Kamran Elahian, entrepreneur whose Momenta Inc. ed out last year when the market cted its pen-based personal com-r, is back in business. He may have n $40 million on Momenta, but his ious startup, Cirrus Logic Inc., was cess, and he has funding for Neo-c Corp., an outfit to make low-pow-ips for mobile computing. Like-, Jean-Louis Gassée, an Apple utive who left in a management eup, has raised money for a new ure called Be Inc. It promises to e a product merging PCs, commu-ions, and consumer electronics.

at may be too much risk-taking for average corporate giant to tolerate. the big companies are recognizing they must come up with new tech-

BUD COLLIGAN 'WE'RE AT THE FULCRUM OF A REVOLUTION'

These days, there's nothing hotter in Silicon Valley than multimedia. The market for software that mixes audio, video, text, and pictures on a personal computer is just $1 billion today. But as digital technology pervades television programming, telecommunications, films, and publishing, the multimedia software market could triple in five years, says Dataquest Inc. That puts Macromedia in a nice spot: Its Director and Authorware Professional programs are the software "tools" used to create multimedia packages. "Now, this is amazing," says President John C. "Bud" Colligan. "We're at the fulcrum of a revolution."

Already, Macromedia products have been put to use in such high-profile projects as the movie Jurassic Park. *They were also used for the hot-selling computer game Iron Helix and the CD-ROM version of* From Alice to Ocean, *an electronic photo book about Australia.*

After years of waiting, Macromedia is ready to reap the rewards of its early multimedia start. The Valley grapevine predicts an initial public offering in the next few months. And, while Colligan declines to comment on the IPO or disclose finances, other insiders say Macromedia hit $25 million in revenues for the fiscal year ended Mar. 31, and the company expects to break $30 million this year. Says Tim Bajarin, president of Creative Strategies Research International: "Macromedia is poised to be one of the best-positioned companies in multimedia. Colligan is important because he has been living and breathing this dream from the early days of multimedia."

Colligan, 39, caught computer fever while getting his MBA at Stanford University. It was 1983, and Apple Computer Inc. was afire with the making of the Macintosh. He joined the Mac team as international marketing manager. But by 1989, there were rumblings of multimedia, so Colligan departed to become CEO of one of the early players, Authorware, which in 1992 merged with MacroMind-Paracomp to form Macromedia.

Colligan has the company focused on five core products, down from 20, and the company has been profitable for four quarters. So is he ready to kick back? "I've been working hard at this for 10 years," he says. "And now, the market is starting to grow, and we have great people. What else would I possibly rather do?" A born entrepreneur.

By Kathy Rebello in San Francisco

ROGER McNAMEE KEEPING FUNDS FLOWING INTO THE VALLEY

If it takes unconventional executives to create new technology companies, it follows that their financiers should be a bit offbeat, too. That may explain Roger B. McNamee, an increasingly influential Silicon Valley money man.

McNamee is one of two general partners of Integral Capital Partners, a $105 million fund that invests in public and private tech companies. While partner John Powell sticks close to home, McNamee bird-dogs executives at computer trade shows and scours the Valley for tidbits that help Integral evaluate any of 900 public tech companies and hundreds of privately held startups. Between its launch in December, 1991, and mid-September, 1993, Integral's portfolio rose 36.5%, roughly triple the Standard & Poor's 500-stock index.

How? Credit McNamee, an information vacuum cleaner who logs 200,000 air miles a year to attend trade shows and to meet with more than 400 executives. Other money managers learn about new products when they're announced. But by then, McNamee has been testing the gizmos for months.

Go to a conference and call it a day? Not McNamee. In the wee hours, he'll be playing guitar with industry bigwigs such as Philippe Kahn, CEO of Borland International in the Random Axes, an ad-hoc rock band.

McNamee, 37, has been on a dead run since 1988, when he began managing T. Rowe Price Associates Inc.'s Science & Technology Fund. With an undergraduate degree in history and an MBA from Dartmouth College's Amos Tuck School of Business, he had little high-tech knowhow. He decided that merely observing the computer industry wouldn't do: He had to invade it. "You have to go out into the marketplace, where things are really happening," he says.

By the fall of 1990, McNamee and Powell, who also worked at T. Rowe Price, felt the glow was off the personal-computer business. They saw that computing would infiltrate television, telecommunications, publishing, and entertainment. It would take a while, and McNamee wanted an investment vehicle that would not be whipsawed by the demands of mutual-fund investors.

He and Powell then headed west and launched Integral's five-year, closed-end fund. They've been focusing on interactive multimedia, client-server computing, and mobile systems, investing in such public highfliers as Microsoft Corp. and Oracle Corp., and in private companies, such as game makers Spectrum HoloByte and Knowledge Adventure. And they're having a ball. Says McNamee: "This is the sweet spot of our career."

By Kathy Rebello in Palo Alto, Calif.

nology and get into new markets fas
than they have in the past. The lat
trend in Silicon Valley is corporate-ve
ture money. Apple Computer funded
own spin-off, General Magic, which
developing new wireless-communi
tions technology, and now has fundi
also from American Telephone & Te
graph, Motorola, and Philips. At t
same time, Matsushita, AT&T, a
Time-Warner kicked in money for 3
Co., a startup that has designed a n
multimedia game machine that mig
also play a role in interactive televisi

So far, nobody seems concerned th
the big corporate money will spoil t
Valley. After all, the giants are here
take advantage of the entrepreneurs'
ent for rapid innovation, and they do
want to slow that down. What remai
to be seen, however, is whether esta
lished companies are any better at pi
ing startups to create new technolog
than they have been at nurturing su
ventures internally.

What continues to worry Valley re
dents and high-tech executives are t
rising costs and quality-of-life issues.
the climate for business and living c
tinues to deteriorate, inevitably the b
and the brightest will go elsewhere. T
big question is whether the nativ
through such efforts as Joint Venture
icon Valley, can reverse the trends
themselves. Some of the most intra
able problems have to do with the d
clining California economy and dete
orating state services—including t
education system. Taxes are rising, a
business regulations are multiplying. "
I were starting a company now, I pr
ably wouldn't do it in California," sa
Shugart. "It's the worst-managed st
in the union."

At the same time, the universit
nearby that fueled the original Vall
boom are feeling the pinch. Fundi
cuts, especially in defense, have hit t
region's state colleges, universities, a
technical schools. While Berkeley a
Stanford have strong research fundi
they are worried that retrenchment m
be coming soon.

But for all the problems, Silicon Vall
hasn't lost its key resource. In fact,
asset base continues to swell whenev
people trek here—from France, Chi
India, or Oklahoma—to pursue th
dreams. "In most parts of the worl
notes venture capitalist Khosla, a nati
of India, "selling your house to d
startup would be considered strang
Here, it's practically routine. After a h
century, it won't be easy to kill off t
Silicon Valley spirit.

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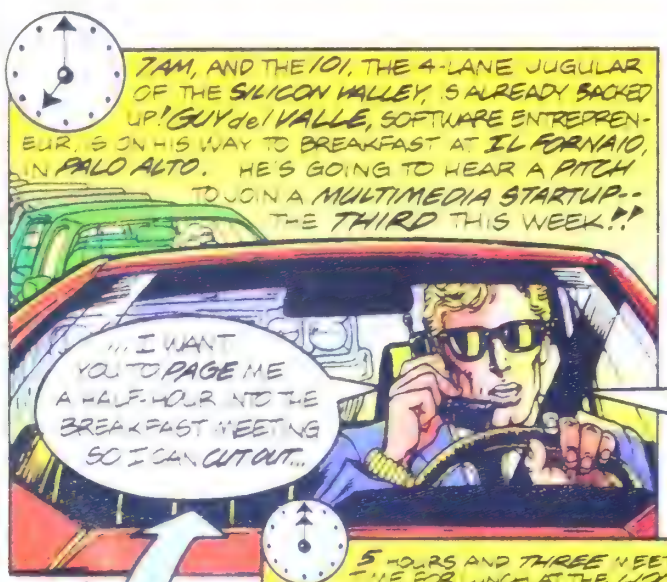
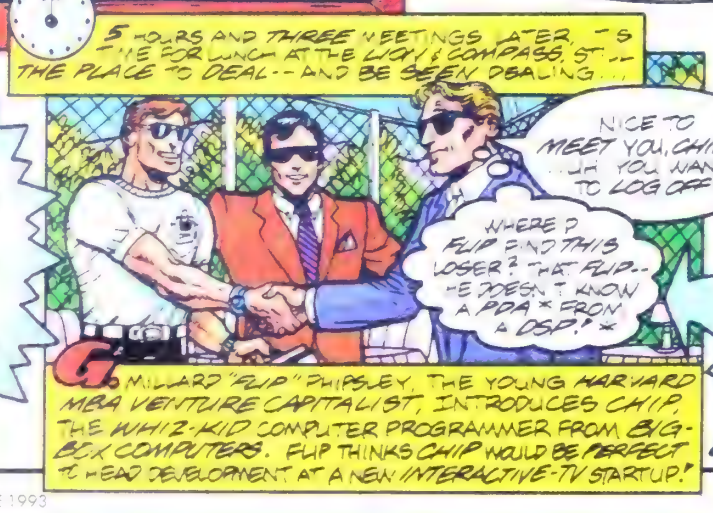
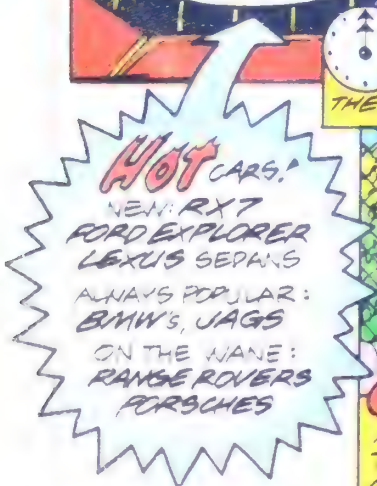
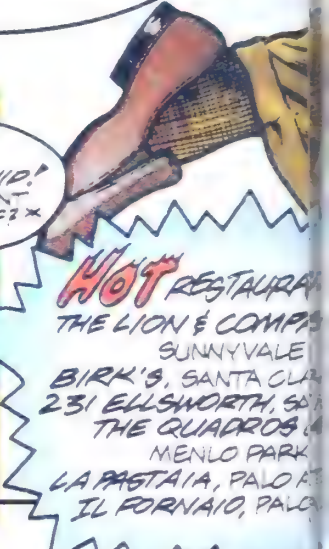
A DAY IN THE LIFE OF A TECHNO WARRIOR

Other places may sprout young companies and cutting-edge technology, but there is nothing like Silicon Valley. It has its own culture, values, and lingo. Its denizens thrive on a blend of technical vision, consuming ambition, a manic work ethic—and a California lifestyle of mountain bikes and Evian. Here's a taste...









VALSPEAK! *

ALPHA AND BETA An Alpha version of a program has so many bugs you only let employees play with it. A Beta is a prerelease version, and selected customers become the guinea pigs.

BANDWIDTH Literally, the capacity to move information. A person who can master hardware, software, manufacturing, and marketing—and plays the oboe for fun—is high bandwidth.

BURN RATE The speed at which a company is using up its cash en route to developing a product.

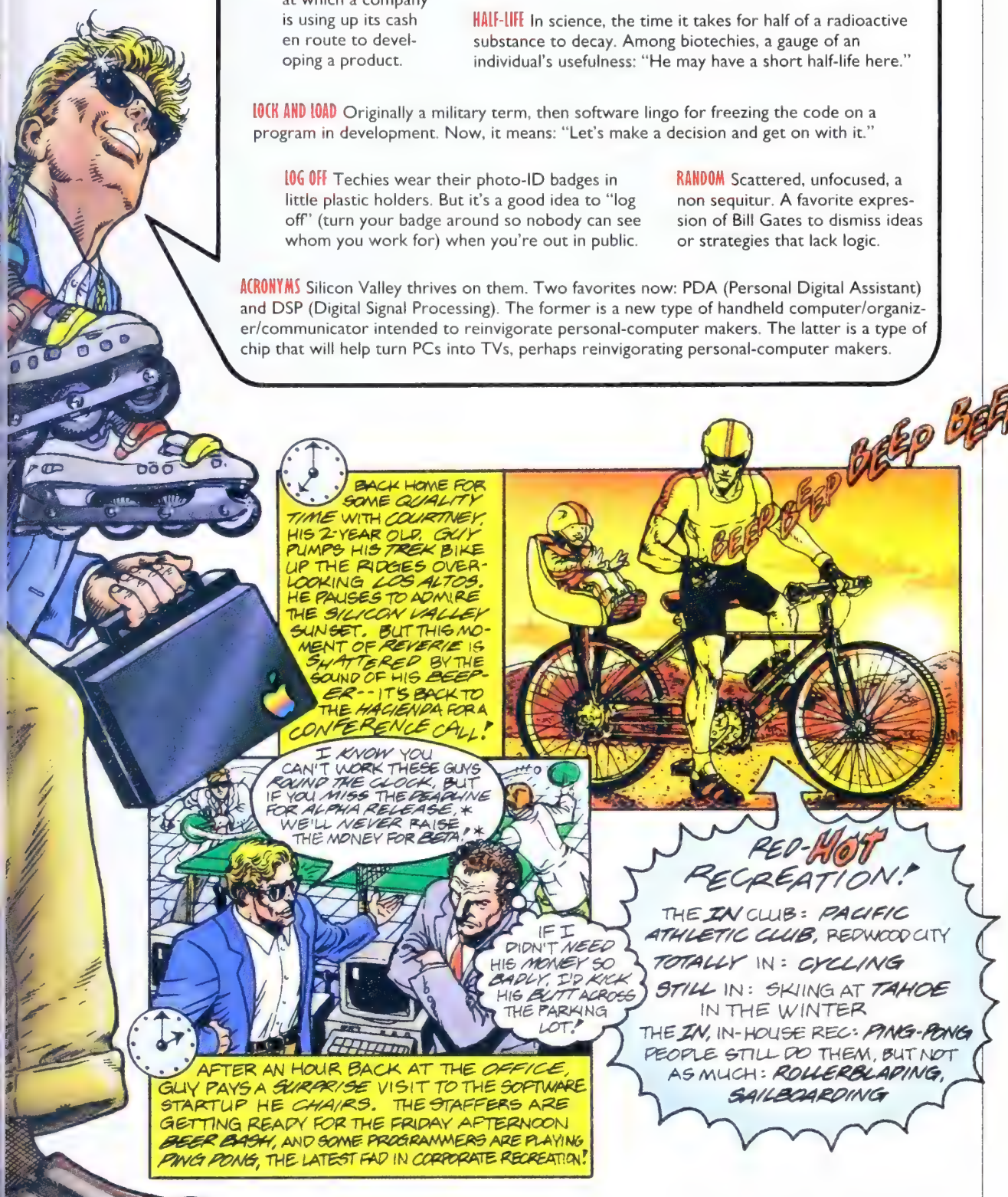
HALF-LIFE In science, the time it takes for half of a radioactive substance to decay. Among biotechies, a gauge of an individual's usefulness: "He may have a short half-life here."

LOCK AND LOAD Originally a military term, then software lingo for freezing the code on a program in development. Now, it means: "Let's make a decision and get on with it."

LOG OFF Techies wear their photo-ID badges in little plastic holders. But it's a good idea to "log off" (turn your badge around so nobody can see whom you work for) when you're out in public.

RANDOM Scattered, unfocused, a non sequitur. A favorite expression of Bill Gates to dismiss ideas or strategies that lack logic.

ACRONYMS Silicon Valley thrives on them. Two favorites now: PDA (Personal Digital Assistant) and DSP (Digital Signal Processing). The former is a new type of handheld computer/organizer/communicator intended to reinvigorate personal-computer makers. The latter is a type of chip that will help turn PCs into TVs, perhaps reinvigorating personal-computer makers.



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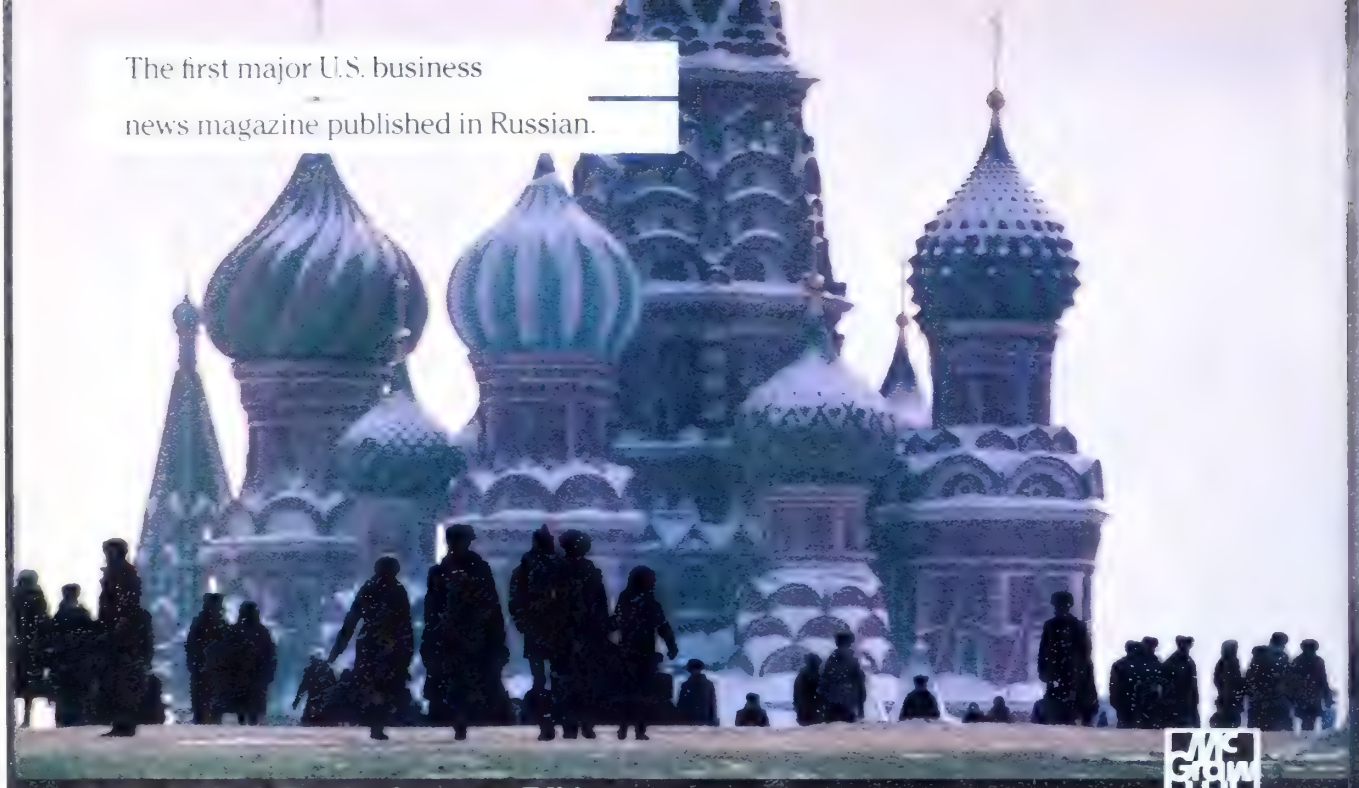

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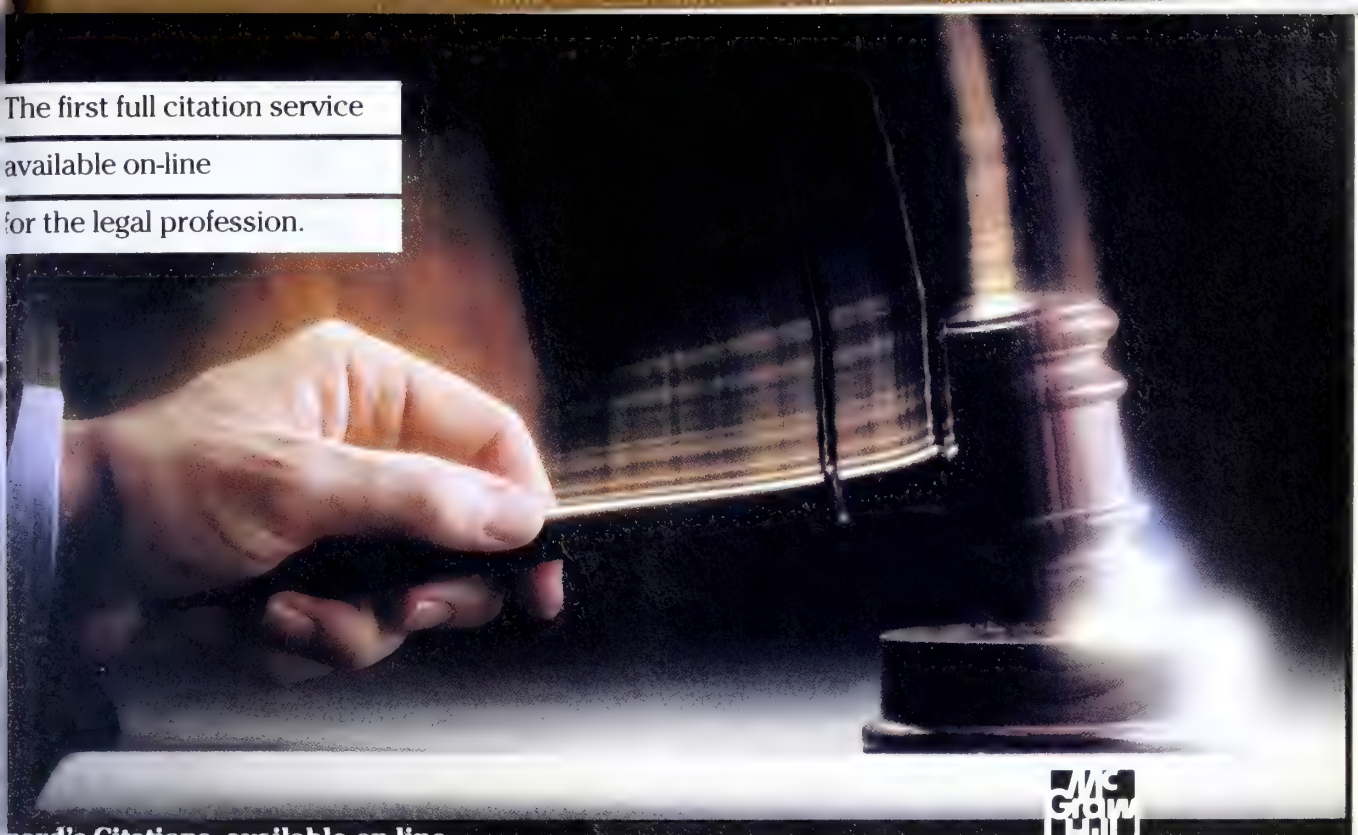

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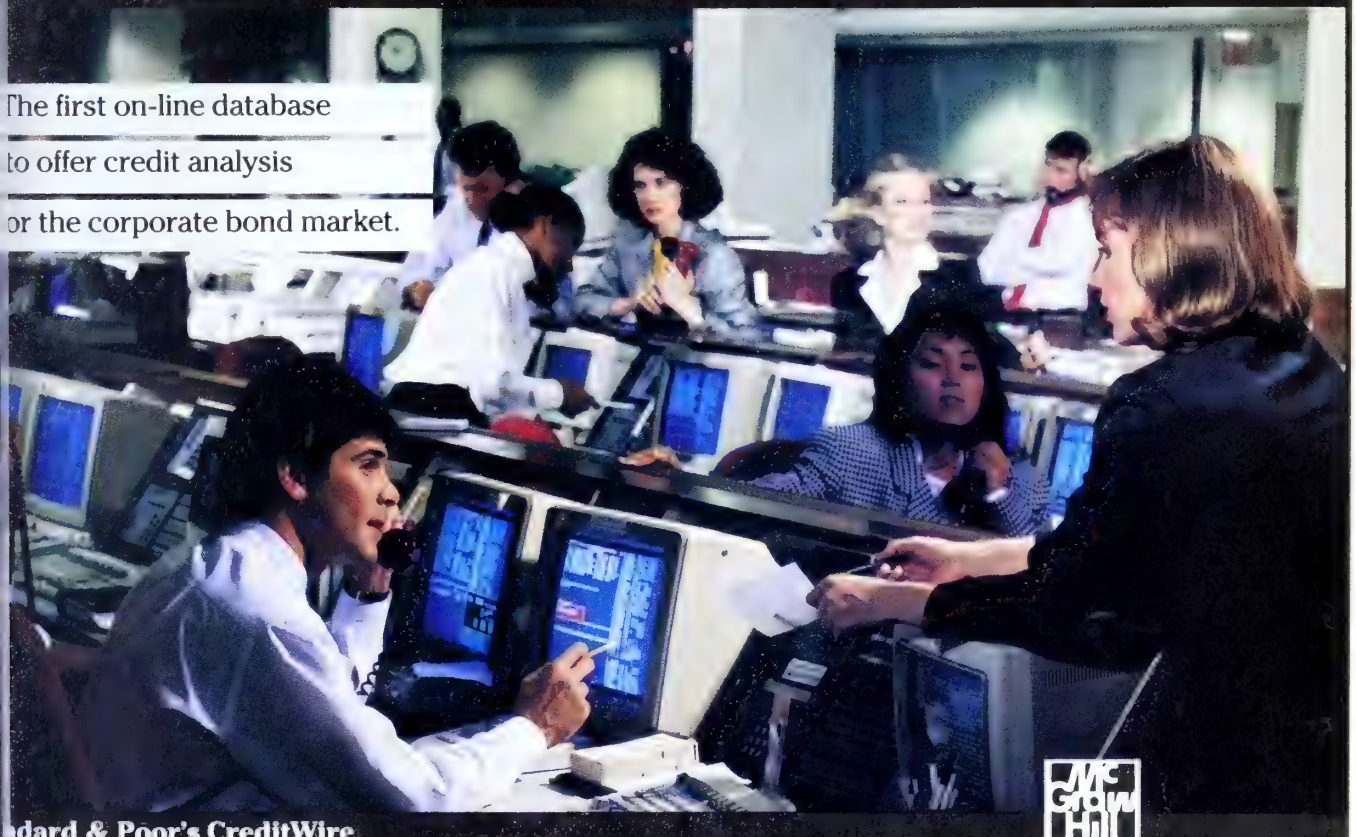

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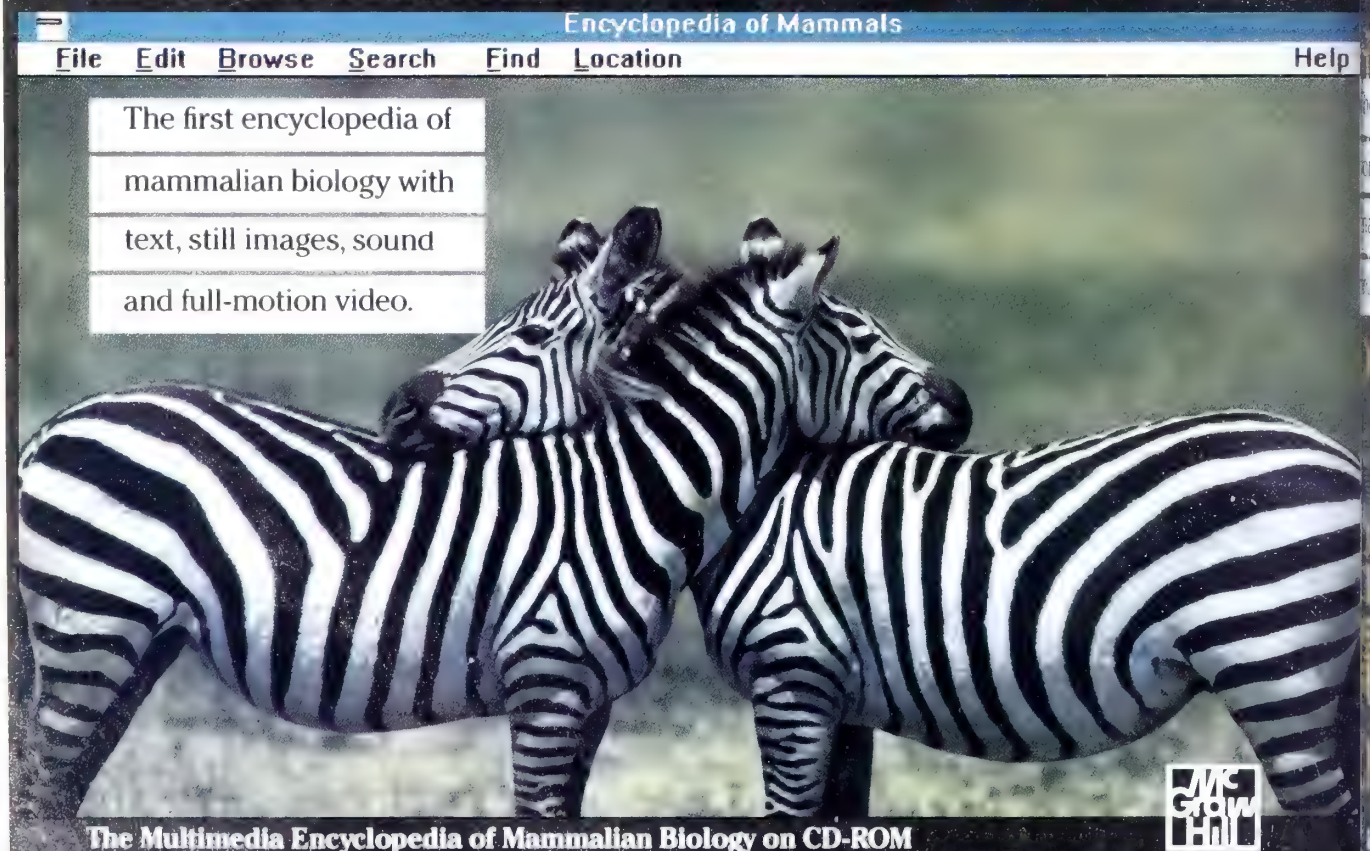

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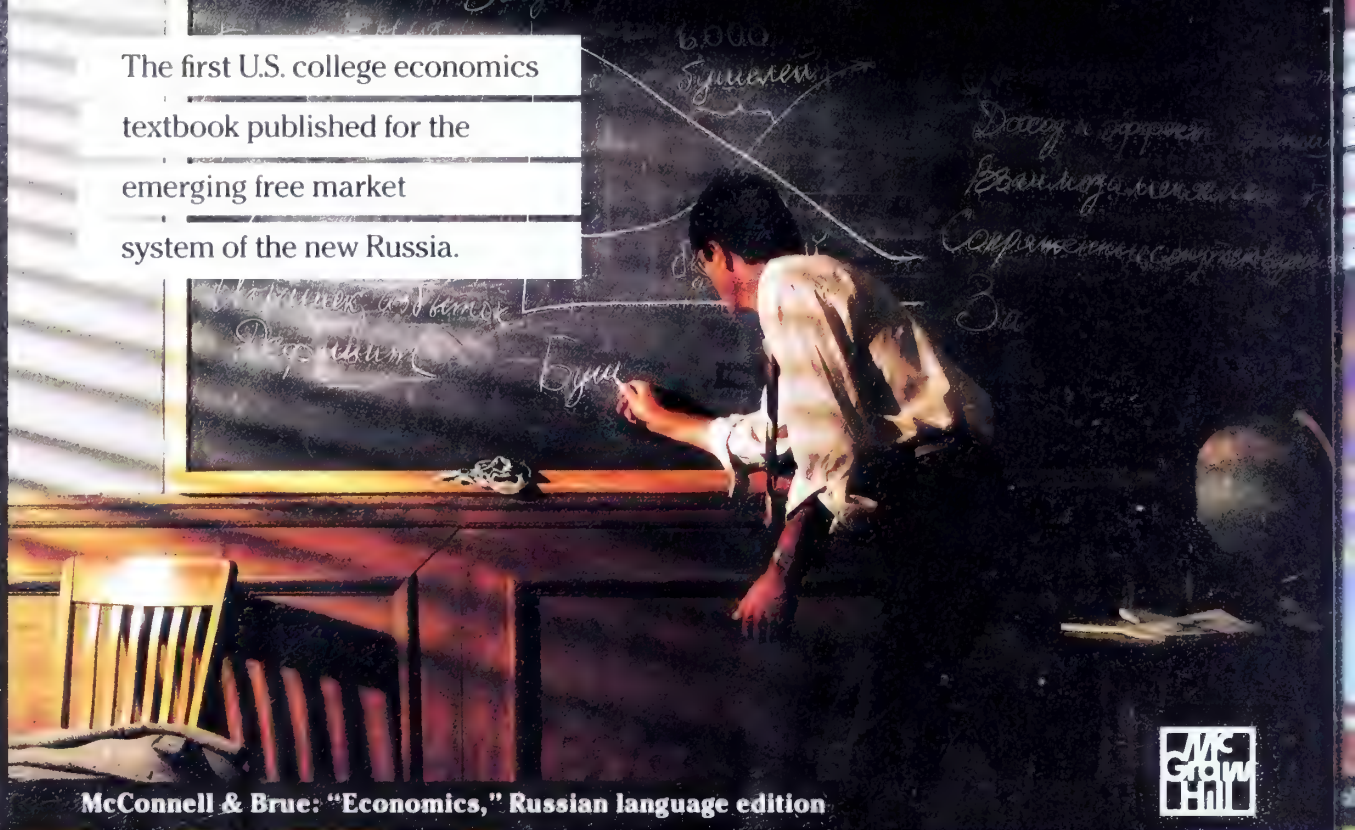
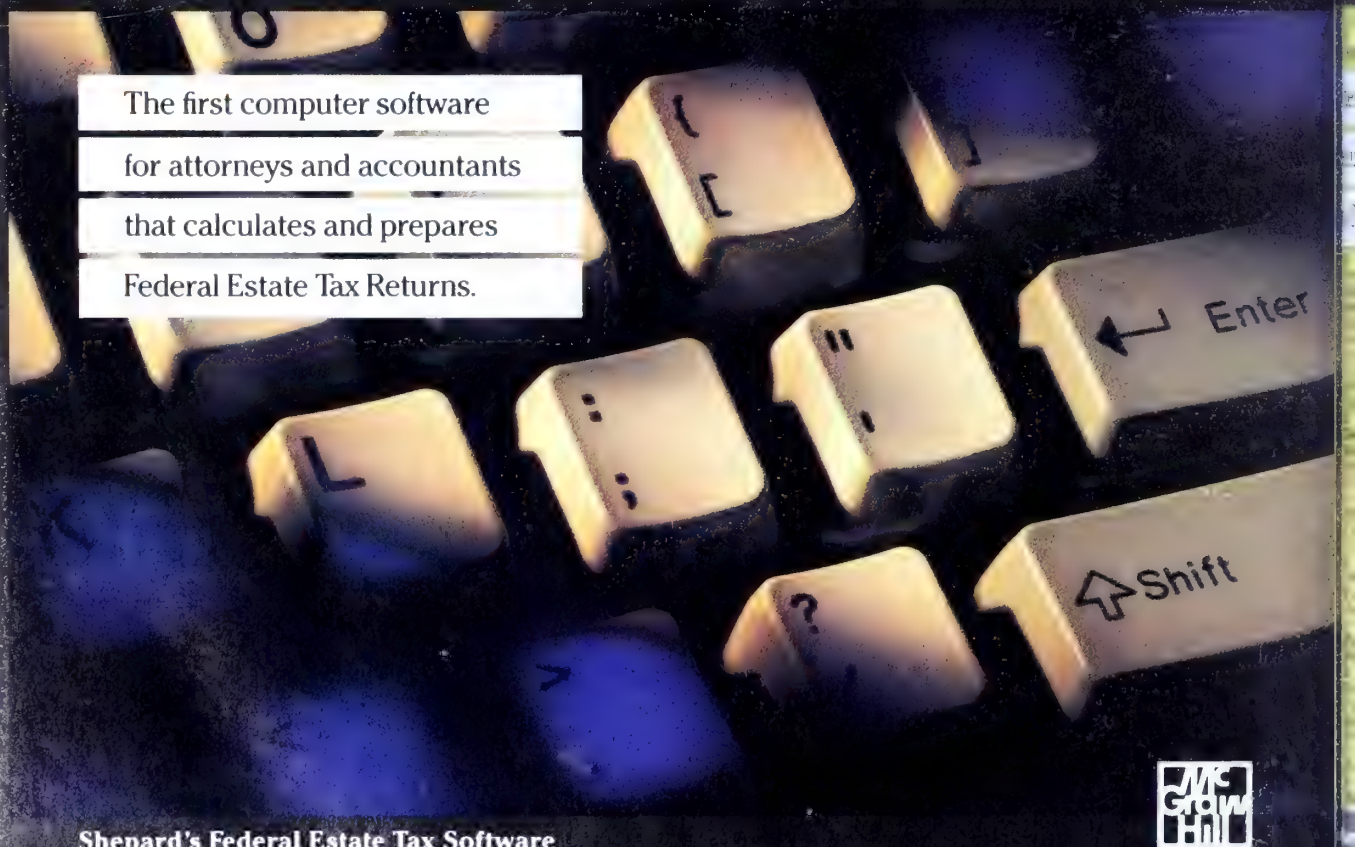


McConnell & Brue: "Economics," Russian language edition



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WHAT BIG COMPANIES CAN LEARN

Sluggishness is just a state of mind—and you don't have to live with it anymore

192 OVERVIEW
HOW GOLIATHS CAN ACT LIKE DAVIDS
More giants are working to combine the clout of bigness with the human scale and sharp focus of smallness

204 CLOSE-UP
PERCY BARNEVIK'S GLOBAL CRUSADE
ABB's aggressive chief has broken the global giant into 5,000 profit centers, slashing staff, and putting managers on the hot seat

212 INTERVIEW
JACK WELCH ON THE ART OF THINKING SMALL
"Speed is really the driver that everyone is after. Faster products, faster product cycles to market. Better response time"

218 MANAGEMENT
LETTING GO IS HARD TO DO
You're used to giving orders? Well, you may find giving more responsibility to your staff has its rewards, too

222 STRATEGIES
TURNING RIVALS INTO TEAMMATES
Little outfits have the fresh ideas. Big companies have the bucks. So guess what: They're joining forces

227 JAPAN
JAPAN INC. FINALLY STARTS ITS DIET
At dozens of companies, corporate socialism is giving way to individual initiative, fewer automatic promotions—and pink slips


IBM

HOW GOLIATHS CAN ACT LIKE DAVIDS

More giants are working to combine the clout of bigness with the human scale and sharp focus of smallness

BY RICHARD A. MELCHER

Donald G. Berger speaks with the exhaustion and excitement of an entrepreneur who has labored for years over a potentially world-beating product. The prelaunch series of 20-hour days, the roller coaster of emotions, the anxiety about whether sophisticated systems would whir, and finally, the champagne toasts—he has been through it all. "This is a once-in-a-lifetime opportunity," gushes Berger, the new chief executive officer of Roadway Global Air Inc. in Indianapolis: "We've brought a new company to market, not just in the U. S. but globally."

Yet the mid-September takeoff of Global Air, which aims to bring new standards of high-tech service to the international package-delivery business, is no ordinary venture deal. Instead, it's the latest and boldest startup spawned by Global Air's 63-year-old parent, $3.7 billion transportation giant Roadway Services Inc. As was the case with Roadway's earlier moves beyond old-line long-distance trucking into such fields as small-package delivery, Roadway is flying into a low-margin business that has well-entrenched competitors, including Burlington Air Express, Emory Worldwide, and DHL. And it figures to spend at least $100 million before Global Air sees any black ink.

No matter. Extensive research points to unsatisfied customers. So now, Roadway is betting that its new company-within-a-company, staffed by inspired employees, can fulfill the lofty dreams of any startup. "We may be in the overnight business, but we aren't going to build a global power overnight," notes Berger, who was lured from a 22-year career at Consolidated Freightways by the prospect of building his own company. "But Roadway is willing to stick with this."

Patient, nimble, and innovative. Not exactly characteristics usually associated with the trucking industry—or many big companies, for that matter. Rather, it's the sickly hulks of IBM, General Motors, and Westinghouse that have led employees, customers, capital markets, and the media to demonize much of Big Industry while reserving a special place in their hearts for blossoming small companies.

Well, look again. There are scores of Roadways stirring around the glo They are quietly embarking on a l adventure to combine the advantag bigness—access to capital, formid research capabilities, and global-mar ing and distribution reach—with the man scale, sharp focus, and ferven trepreneurship of smallness.

In industries as diverse as measur instruments and hotels, pharmaceut and retailing, companies are sli themselves into more manageable p es, farming out all but essential fu tions, sharing risks with new partn and once again listening to their cust ers. They also are employing techno to act quickly and strike a competi advantage, whether it's retailing g May Department Stores Co.'s mas of computers to monitor inventorie Roadway's promise of real-time tr ing of myriad packages.

Above all, the best of the big are s ing something quite basic: to make t companies attractive places to w Through stock options, customer-s faction bonuses, or opportunities to ate businesses, big enterprises are ing to bind their interests n intimately with those of their work

Herbert D. Kelleher, co-founder cheerleading CEO of Southwest Airl Inc., can credit much of the carr astonishing success to never hav strayed far from the feel of a mom-a pop outfit—even as $1.7 billion So west has grown into the nation's eig largest airline.

To maintain the buzz, the iconoc tic Kelleher—who has dressed as E and the Easter Bunny on flights—a deployed everything from traditi profit-sharing schemes to a buddy tem linking old and new employees a result, Southwest is not only the U airline industry's most consistent pr spinner but also a company that wil tract 100 applications for each vac

is year. Credit, in part, Kelleher's strik-gly simple mantra: "Think and act ıall, and we'll be bigger. Think and t big, and we'll get smaller."

Such plain-spoken advice was widely ıored in much of Corporate America, well Europe and Asia, over the past cade in a mad dash for size. No long-

Beginning in Britain and now spread-g across much of Europe, recession-acked companies are rewriting social ntracts that guaranteed generous em-oyee benefits, shifting jobs to low-ge countries and, sometimes, even uttering businesses.

This summer, Britain's largest manu-turer, Imperial Chemical Industries C, spun off its highly profitable drug it, Zeneca PLC, from its basic chemi-

interests into a separate company th its own stock. German stalwarts imler Benz, Siemens, and Volkswa-n are laying off tens of thousands of rkers in a furious, if risky, attempt to nake a culture that has changed lit-since the early postwar era.

Half a world away, large Japanese companies such as Ricoh, Mitsubishi Electric, and Nippon Telephone & Telegraph are equally intent on trimming their bloated organizations. Because of cultural differences, the methods used are often more subtle. Toyota Motor Corp. in 1994 will hire only half the workers originally planned, while Digital Equipment Corp. in Japan is requesting that 200 employees seek voluntary early retirement. But the results will be the same: trimmer Japanese giants that can better compete with companies that don't carry so much bureaucratic baggage (page 227).

The best companies will ruthlessly avoid building up headquarters staff

There's danger in simply chopping heads without having a broader plan to change the way the remaining organization operates. Just look at IBM, Eastman Kodak, or General Motors, all groping giants that discovered to their chagrin that mass firings can merely erode morale, leaving the skinnier company no more coherent than before. "The advantage to head-count cuts is that they happen fast, and the markets tend to react favorably," notes Kim S. Cameron, a professor at the University of Michigan business school. "The disadvantage is that it's like throwing a grenade into a crowded room." And Cameron has seen the fallout: Of the 150 restructuring companies he has studied, three-quarters end up worse off after their downsizing.

Of course, many smaller companies have gone astray, just like big ones. And often it's for the same reasons: They build in too much bureaucracy as they get larger and lose touch with their employees and principal markets.

Yet the job-creating power and financial returns of the healthiest small companies highlight a big gap between them and their larger counterparts (chart, page 195). It also comes down to the bottom line: In terms of operating income per employee before depreciation, America's top-performing small public companies outperform the corporate giants in scores of industries, at rates ranging from 1.4 times better in general manufacturing to a staggering 5.1 times in computer software and services, according to Standard & Poor's Compustat Services Inc.

The best of the big—companies such as General Electric, Emerson Electric, and Johnson & Johnson, with their heavy emphasis on small management teams running highly decentralized units—have rarely lost sight of the virtues of smallness. Others, including communication giants American Telephone & Telegraph Co. and Motorola Inc., have been traumatized into remaking themselves by deregulation, heavy international competion, or both. Still

WARREN LYNN

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hers, such as $2 billion xury hotelier Hyatt otels Corp., have only cently accepted the ed to overhaul themlves to deal with the owed growth and htfisted customers of e 1990s.

Whatever the reason their conversion, big mpanies that think all share a realization at maintaining the xibility of a small enprise—not sheer size—will be the real easure of their long-term success. oards and managements that have en focused so heavily on short-term ancial results are now attacking what kes their companies great for the long m," says Cyrus F. Freidheim Jr., vice-airman of consultant Booz, Allen & milton Inc.

One place to start is to break the bemoth into far more manageable units, actured around product lines or dite businesses. Such moves can unsh a tidal wave of payoffs as compas accelerate the development of ducts and unleash the pent-up creaty of their employees.

ust ask Emerson Chief Executive Oer Charles F. Knight, whose $8.2 bil precision instrument manufacturer logged a stunning 36 consecutive rs of record earnings from his 40 hly autonomous—but highly accounte—divisions.

Knight uses three quick measures to ermine whether big companies have ome lumbering and bureaucratic. He es that the best companies will push planning and control of profits down product lines. They will ruthlessly id building up headquarters staff, ch at Emerson is at the same level 10 years ago, despite a doubling of s. And they will open communica channels so that crucial competitive financial information flows down to shop floor and suggestions flow up n there to the chairman. Knight, for ance, says he personally reviews evepinion survey from Emerson's 233 nts.

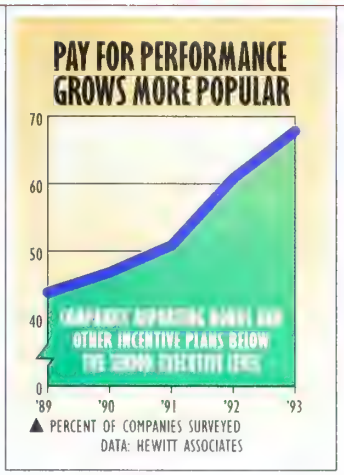
night is about to get a chance to apthose tests at America's most troud big company, IBM, where he has ntly become a board member. He's Pollyanna when it comes to what's essary to make Big Blue or any othbig company more flexible. "It nds easy, but it requires a complete nge in how people act and think to move away from a large centralized organization," he explains.

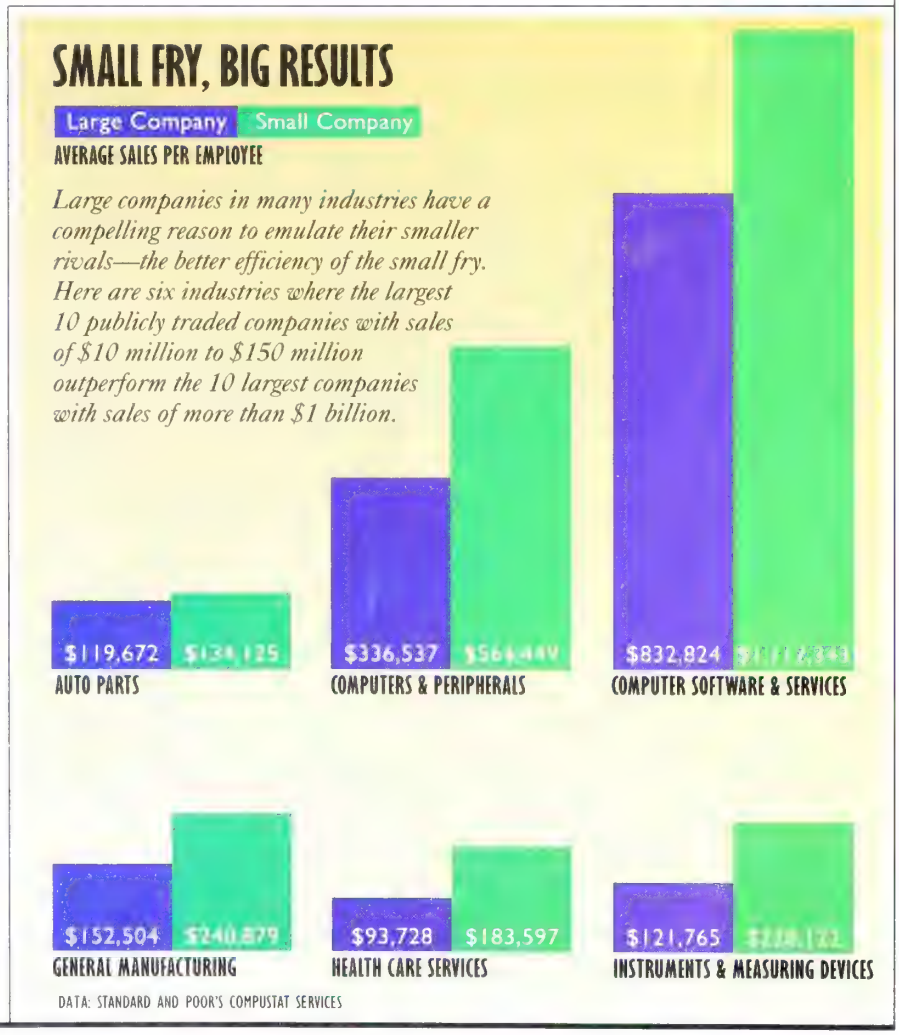
That's why the best of the big companies frequently resemble nothing so much as a collection of small ones. By stripping out—or refusing to add—layers of management, they sidestep what Dartmouth College business professor James Brian Quinn calls "excessive rationalism"—a common pitfall that leads big companies to build in so much analysis and planning that they simply avoid taking risks.

For a primer on how to do it right, look at Johnson & Johnson. This $14 billion health-care giant, a perennial industry leader in profits and innovation, is really a group of 168 companies selling everything from Band-Aids and birth-control pills to baby powder and Tylenol. If one of its dozens of labs develops a hot product, a new company is created to peddle it.

American auto-parts maker Dana Corp., a big supplier to big U. S., European, and Japanese carmakers, has applied this small-is-beautiful approach to its far-more prosaic business. Only a handful of Dana's 120 plants employ more than 200 people, and when a division of the $5 billion company gets too big, it simply gets split in half. "Plant managers should know the name and personal circumstances of everyone," insists Dana Chairman Southwood J. Morcott.

Many conglomerates, of course, are being driven by competitors and capital markets to even more extreme solutions. Now that managers extol the virtues of focus instead of the safety of a diversified business portfolio, they are lopping off big limbs. For companies as diverse as American Express, Textron, and Sears Roebuck, it's back to basics—which almost always means a concen-





Nurturing an employee's brainchild

For Denis Stemmle, it's a dream come true. The idea was to make a battery-operated, plain-paper copier that could nestle in a briefcase alongside a laptop computer. For five years running, he presented the concept to Xerox Corp.'s operating committee, and every year it got shot down. Now, 10 years after engineer Stemmle dreamed up the nifty device, it's about to make its debut at January's giant Consumer Electronics Show in Las Vegas.

But after 25 years at Xerox, Stemmle no longer works there. The copier is made by his new employer, QuadMark Ltd., across town from Xerox' Rochester (N. Y.) development center. In years past, QuadMark would have been just another company that Xerox let slip away with its technology—much the way Apple Computer Inc. borrowed the idea of a personal computer's icon and mouse from Xerox' vaunted Palo Alto Research Center.

XEROX TECHNOLOGY VENTURES FUNDS STARTUPS TO DEVELOP PRODUCTS—SUCH AS QUADMARK COPIERS—BEFORE THE INVENTOR DECAMPS

But this time, there's a difference. Xerox owns 60% of QuadMark, one of a growing portfolio of companies founded by Xerox Technology Ventures (XTV), an internal fund in El Segundo, Calif. XTV was established to generate profits for Xerox—rather than smaller, nimbler competitors—from promising internal technologies that have been discarded or simply overlooked by the $15 billion giant. "We concluded that we needed a system to prevent technology from leaking out of the company," says Robert V. Adams, president of the $30 million fund. Admits Xerox Chairman Paul A. Allaire: "Xerox Technology Ventures is a hedge against repeating missteps of the past."

So far, it's working. Since its 1989 debut, XTV has funded a dozen startups. Only two have gone belly-up, and eight are already profitable. In fact, the first company XTV launched, Advanced Workstation Products Inc., was a little too successful. It devised an add-in circuit board that, when slipped into an inexpensive IBM personal computer, allowed it to do the job of a $10,000 Xerox office workstation. Xerox decided it had to buy out this competitor it had helped create—it now sells the board itself—and the tiny company's founders and employees pocketed $2 million of the $15 million purchase price. Says Tony N. Domit, the start-up's president: "It was terribly embarrassing to a lot of people at Xerox."

Normally, Xerox isn't in the business of buying back its own ideas. Instead, Adams runs XTV as a classic venture-capital operation, providing seed money and lining up outside investors. At QuadMark, for example, $3.5 million came from Taiwan's Advanced Scientific Corp., with a 20% stake.

XTV's goal is to take public the companies it funds, with Xerox profiting later from the sale of its stake. "Unlike most companies' venture activities, we're willing to give up control," explains Adams, who will take three XTV companies public by 1995.

Xerox is also willing to turn up the heat on its little spin-offs. Adams promises no return berth for executives at XTV companies that fail—unlike most corporate "intrapreneuring" ventures. But he dangles a big carrot to keep entrepreneurial juices flowing: 20% of the shares of the independent startups are reserved for founders and key employees. "What we like about Bob's approach is that he adds the element of risk," says Alessandro Piol, a director of AT&T Ventures, a two-year-old fund modeled on XTV.

But the biggest payoff from XTV may be nonfinancial. Already, Xerox managers are keeping a closer eye on internal technologies and employee ideas. And Xerox technologists are pumped about the opportunities XTV allows for promising ideas. Just ask Denis Stemmle, who had code-named his long-frustrated copier project "Quixote." Today, he's no longer tilting at windmills.

By Larry Armstrong in El Segundo, Calif.

tion on a smaller, more manageable
oup of businesses.
Often, the result is far better perfor-
ance, both at the spin-offs and the par-
t companies. Investment bankers
itchell & Co. looked at 10 represen-
ive conglomerates that spun off units
recent years and discovered their
are prices after five years were 39%
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As part of its reconstructive surgery
m disabling loan losses, Continental
nk Corp. pushed almost everything
tied to lending and trading money—
d and legal services, building mainte-
nce, even its information systems
nagement—to outside suppliers. And
n Microsystems, a $4.3 billion maker
computer workstations, recently
sed its distribution warehouses and
ned worldwide shipping over to such
npanies as Federal Express and Nip-
n Express.
'Given today's margins in the com-
ter business, we need to take our
ree resources and apply them to ar-
that will get us faster to market and
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n's L. M. Ericsson are teaming up
h their smaller brethren in a rush to
ead risks, enter new markets quickly,
l relearn entrepreneurial tricks.
:ven mammoth AT&T, which recent-
howed its prodigious financial muscle
plunking down $12.6 billion to buy
ular kingpin McCaw Cellular Com-
nications Inc., sees its limits. That's
reason it's joining Apple, Sony, Phil-
Matsushita, and Motorola in back-
tiny startup General Magic's quest
develop wireless communications
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as Instruments are now serving as
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Fun: It's fundamental

For sheer goofiness, it would be hard to top the sales meeting that MCI Communications Corp. put on in Dallas last October. A cross between a fraternity skit night and a mock political convention, the session featured red, white, and blue balloons and blaring patriotic music. Sales teams, dressed up as their favorite *Saturday Night Live* characters, read out their regional revenue projections for the coming year. At the end of that "roll call," Chairman Bert C. Roberts Jr. walked onstage to accept his "nomination" amid chants of "Bert...Bert...Bert."

There's a purpose behind these seemingly juvenile high jinks. The meeting was part of an effort mounted by the nation's No. 2 long-distance company to maintain its scrappy, entrepreneurial edge as it grows older and larger. Although MCI 's employment has soared tenfold since 1982, to 31,000 workers today, management realizes that it was small-company entrepreneurism that allowed 25-year-old MCI to turn the button-downed long-distance world on its ear. "Our strategy, our values, our corporate culture all come together in a spirit that makes MCI special," explains Roberts. "It's the key competitive difference between us and our rivals."

Maintaining that hard-charging style in a $10.6 billion corporation, however, is no easy task— especially as MCI gets bigger and no longer can rally its troops simply by casting itself as the underdog to American Telephone & Telegraph Co.'s Evil Empire. Another threat is creeping corporatism: Washington-based MCI moved last year from spartan digs into plush new headquarters a mile from the White House. And its fleet of four corporate jets isn't the stuff of struggling startups.

That's why Roberts has declared that a top 1993 company priority will be "to keep the spirit of MCI kindled." To do that, he regularly appears on MCI 's closed-circuit TV network to give impassioned spiels about entrepreneurism. He occasionally does magic tricks at management meetings. And at one staff caucus earlier this year, Roberts even took a pie in the face from one of his fellow executives.

MCI OFFICES ALMOST NEVER HAVE DOORS, SO THAT IDEAS CAN FLOW UNIMPEDED

But the MCI chief's efforts to maintain the nimble, quirky persona of the younger MCI go beyond mere stunts. To lubricate the flow of ideas, most offices at new MCI buildings, including headquarters, have no doors. And MCI has kept its management structure so flat "that there are only two levels between Bert and the branches," boasts Timothy F. Price, president of MCI's business markets unit.

Whether MCI can maintain its outsider's edge as it continues to grow remains to be seen. For now, Roberts won't let MCI slip quietly into middle age without a fight.

By Mark Lewyn in Washington

CHRIS USHER

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xperiments outside more mature s—and to single them out for spe- notice. 3M, for example, allows em- ees to set aside 15% of their work k for new-project ideas. The most nising notions can evolve into work ns and new divisions. And the idea erators can reap handsome rewards, n $50,000 "genius grants" to merit s and profit-sharing.

For all of the big-company rethinking under way, however, the critical issue is how to recapture the type of allegiance and commitment that have long been hallmarks of the best small outfits. Big-company managers increasingly recognize the symbiotic relationship between inspired employees and the bottom line. And a surprisingly simple way for companies to inspire workers is often just to listen to them. That's tough for many managers, simply because they might not like what they hear.

Employees at Hyatt Hotels, for example, are actively encouraged to question orders that come down from the hotelier's Chicago headquarters—and they regularly redraft roughly 70% of the edicts, notes President Darryl Hartley-Leonard. "We refer to the field

Playing ball without the coach

The machine shop where Judy Gravely works—at a Texas Instruments Inc. factory in Dallas—used to be quiet, detached place. "We came in and put in our 40 urs, and were taught for years not to communicate," ys Gravely, who machines parts for TI's missiles and mbs. All suggestions went up the ladder to a supervis- —often not to be heard of again.

No longer. Battered by defense cutbacks and vicious mpetition in its other high-tech markets, TI has turned to grunts for answers on how to stay competitive. So avely and the other five mem- rs of her new work team now nedule their own jobs, order eir own supplies, and track eir own attendance. They also end plenty of time communi- ing, often spotting problems fore they happen. The results: e time to make a bail ring has opped from 13.8 hours to just hours.

Hoping to duplicate such en- prise in its other businesses, is adopting self-directed work ms in most parts of the com- ny. It's difficult to quantify the llective impact on $7.4 billion but sales per employee have proved—up from $88,300 in 89 to $122,820 in 1992.

Most impressively, at the $2 billion Defense Systems & ctronics Group—where more than 80% of staffers are w on teams—profits have held steady, despite increased mpetition for scarce defense contracts. Fred Eintracht, m development chief for DSEG, explains that productivity ns for teams that have taken the reins range from 20% 50%.

n part, this handing over of responsibility is an inevitable product of downsizing. For example, when 1,200 em- yees took an early-retirement package designed for only half that many, in October, 1991, DSEG executives suddenly found themselves with two fewer layers of management and more direct oversight than they could easily handle. DSEG President William "Hank" Hayes, for example, was left with 12 people reporting to him directly instead of four. "That tends to get rid of the urge to micromanage," he explains.

That's a turnabout for TI, long known for an autocratic, top-down management style. Starting in the 1980s, increased competition in its key chip markets changed that cockiness. "We've finally started taking responsibility for what this all means for management—getting out of the way," says Hayes.

TEXAS INSTRUMENTS WORK TEAMS ON THE SHOP FLOOR ARE SELF-DIRECTED

DOUG MILNER

Change has not come easily or quickly, however. Even in the best cases, it takes about two years for a TI work team to take on its own day-to-day management, as the work process usually has to be completely redesigned. Supervisors have to recast themselves as facilitators—or be replaced. Information systems have to be changed to give the team members access to product cost data. And there's the up-front financial cost: TI boosted U. S. training spending 17% last year, to $35 million.

Still, some unexpected changes have sprung from the increased communication that has come to TI. In a move that would have been unthinkable a decade ago, for example, Hayes has already notified DSEG workers that half of them are likely to lose their jobs in coming months if new non-defense contracts aren't found. Workers don't like the news, but they appreciate the candor. Being taken seriously is the ultimate form of empowerment.

By Peter Burrows in Dallas

[employees] as the loyal opposition," jokes the hotelier.

But there are plenty of benefits from an open dialogue with workers to salve management's bruised egos. Hyatt's successful new "Camp Hyatt" and "Rock Hyatt" programs for children and teens at its resorts were spawned by an employee suggestion. And Hyatt has helped finance employee startups in such areas as restaurant management and event planning, occasionally subcontracting work back to them.

Once senior managers begin to listen to their work force, rather than simply talking down, it's not long before many consider changes in another area that can make employees true partners: compensation. Schemes such as stock options, quality bonuses, and raises pegged to customer satisfaction are proliferating at big companies. A recent study of 2,000 companies by consultants He[wi]tt Associates reveals that 68% of th[em] have incentive programs that ext[end] throughout the business, up from 4[0%] five years ago. By the year 2000, p[ro]dicts Hewitt Director Ed Gubman, [a]ctually all companies will have such pl[ans]

And there's growing evidence of qu[ick] payback. An American Compensat[ion] Assn. study found that companies [are] earning back twice what they are p[aid]

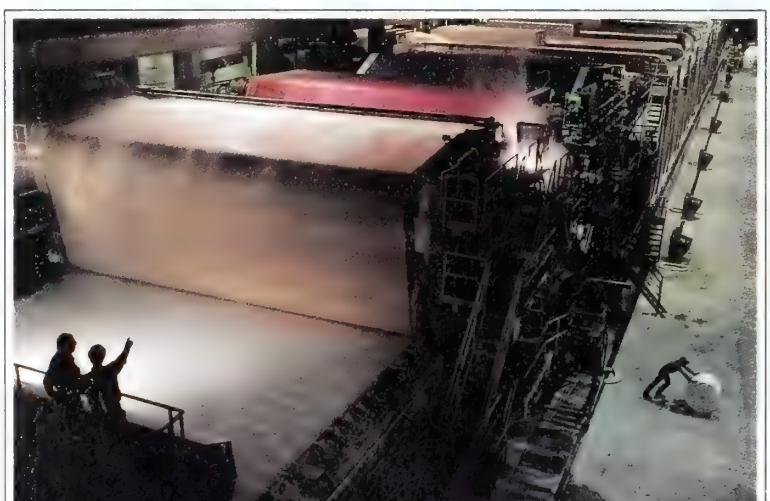
Sometimes, you still gotta have size

BY JAMES B. TREECE

In 1946, steel magnate Henry J. Kaiser boasted to a Detroit dinner gathering that two recent stock offerings had raised a huge $50 million to invest in his budding car company. Suddenly, a voice from the back of the room shot out: "Give that man one white chip."

Sometimes, to play in the big leagues, you need to have a lot of weight to throw around. That's an increasingly unpopular notion to trumpet in this decade of downsizings. Yet scale, the stewarding of considerable financial, human, or technical resources, can still be a powerful competitive advantage.

Indeed, you won't find Mom & Pop Petrochemicals Co. building multibillion-dollar refineries. And in capital-intensive commodity industries such as paper and cement, companies today must grow as large as possible or retreat to the safety of niche-player status. "There are tremendous advantages to us being big," explains Chairman Richard T. Farmer of Cintas Corp., whose $450 million uniform-maker has prospered as the big guy in an industry of small fry.



GEORGIA PACIFIC PAPER MILL: NO MOM-AND-POP CAN COME UP WITH THE HUGE CAPITAL THAT COMMODITY INDUSTRIES NEED

Despite the bureaucracy it often brings with it, sheer size can have compelling advantages for corporations. A large enterprise's deep pockets may allow it to endure a prolonged recession that saps smaller rivals. Or a big player can pour more money into a narrow specialty than smaller competitors, much as Timken has done in bearings. "The larger we are, the more able we are to smooth over business cycles," says Jeffr[ey] Grade, CEO of machinery maker Harnischfeger Industr[ies]

The advantages of scale go beyond mass-production [eco]mies, however. Consumer-goods concerns for years h[ave] scale to buttress their position against upstarts. Flavore[d] and tennis shoes don't cost much to make, but who c[an] the ad budgets or distribution networks of a Coca-Co[la] heuser-Busch, or Nike?

In a world ecc[o]large companies [are] international airl[ines] globe-spanning n[et]banks also can e[xp]greater reach, al[low] them to provide[] or more compre[he]service to more [cus]ers. This is the u[n]gument for large[r] service compani[es] if the risks of ad[d] reaucracy are gr[eat] "One of our bus[i]to serve large, m[ul]tional clients wh[o] operations throu[gh] the world," says [Ed] Laskawy, deputy [chair]man of Ernst & Y[oung] "The way we car[e] them best is to be where they are."

There's a reason why Bechtel often gets the call wh[en] veloping country wants an airport, a university, or an e[ntire] built. "Speed of response is erroneously attributed to s[mall] companies," argues Kenneth L. Kraft, associate profess[or] management at the University of Tampa. "Big compani[es] the speed of response when large numbers of resourc[es] needed."

The enormous cost of developing new technologies [is]

out in employee incentives, thanks ncreased productivity and sales.
t heavy manufacturer Harnischfeg- Corp. in Milwaukee, for example,) Jeffrey T. Grade deploys five in- tive plans for different employee lev- The most novel links the salaries of managers to the return on assets y manage. "It makes these people like small store owners," says Grade. onger term, big companies must practice a delicate balancing act that allows autonomy at the lowest levels possible while maintaining the advantages that size can bestow. Emerson Electric, for example, recently discovered it had 15 die-casting operations scattered among its autonomous divisions, a needless duplication. So the company plans to turn over all of those operations to an outside supplier in which Emerson will take a stake.

However, having to fix such unexpected inefficiencies later is a small price to pay for the gains that corporate giants generate by empowering both managers and workers. After all, as General Electric Co. Chairman John F. Welch Jr. notes, no company starts out intending to stay small forever. The trick is continuing to think small as you grow.

With Wendy Zellner in Dallas and Robert D. Hof in San Francisco

ome cases, bigger is not only better, it's mandatory. In industry, "you have got to have the pockets for ys Kenneth K. Kohrs, Ford Motor Co.'s vice-president roduct development. "Just to tool a fender is $8 mil- 10 million."
ıdustries value size more than pharmaceuticals, and it's see why. The average cost of developing a new drug is $250 million, and drugmakers have only seven to nine tween the time it's approved for sale and when it los- t protection, according to Aneel G. Karnani, associate r of corporate strategy and international business at ersity of Michigan at Ann Arbor. Even with the best tiny drug company often can't beat the clock—at least out help from one of those big, lumbering partners. levelopment costs and short shelf-lives are the rule for ductors, as well. In both industries, therefore, a com- st often make and sell huge volumes quickly to recoup ments. Argues Karnani: "That itself requires scale."
n't big technology outfits get left in the dust? Certainly nt examples of IBM, Digital Equipment, and Wang are ry. In addition, a small, nimble company can leap on a gical breakthrough and ride it to the bank.
mbleness is often a function of corporate structure ure, not size. Warns Kraft: "A highly centralized, rigid, ical small company has little advantage over a highly ed, rigid, hierarchical large company."

In fact, a large technology company has some potent defenses. It may have pockets of skills within its far-flung research and development efforts that allow it to rebound, even against its own miscues. IBM researchers, for instance, invented reduced-instruction set computing (RISC) in the 1970s as a way to design powerful computers—and then proceeded to do nothing with it. But smaller companies picked up on the idea. In 1986, Sun Microsystems Inc. introduced the first RISC-based computers. Caught napping, IBM fired up its designers. Despite the late start, today IBM has one of the leading RISC chips, the PowerPC. "If you have lots of people, especially if you've chosen them to have a wide spectrum of capabilities, you will be better at responding to new opportunities," argues Steven L. Goldman, Lehigh University's Andrew W. Mellon distinguished professor in the humanities.

Sure, big isn't always better. "Along with scale comes constipation," cautions Clayton Deutsch, managing director of consultants McKinsey & Co. So the real challenge for many big companies is not to eschew their scale, but to manage it in a way that avoids decision sclerosis and management rigidity.

And plenty of mammoth corporations are doing just that, from Motorola Inc.'s continual upgrade of its work force to 3M Co.'s requiring units to churn out new products constantly. "The fact that economies of size are so rarely realized doesn't invalidate the scale argument," says Deutsch. "It just means it's damn tough to make it work."

EN BIGGER IS BETTER

Although scores of large corporations are scrambling for ways to trim their massive organizations, there are still businesses where scale is crucial.

(ICTION Economies of scale based on long pro- on runs and massive il spending often still . Not an arena for players, these are y commodities.

IES: Commodity icals, paper, oil refin- oncrete

IES: Dow Chemical, co, Boise Cascade

MARKETING/-DISTRIBUTION-INTENSIVE COMPANIES The product itself may cost little to make, but the major players' huge marketing budgets or extensive distribution networks create a barrier to tiny new entrants.

INDUSTRIES: Beverages, athletic footwear, consumer goods

COMPANIES: Coca-Cola, Anheuser-Busch, Nike, Procter & Gamble

PURCHASING POWERHOUSES: Bigger volumes can mean lower unit purchasing costs for retailers—or producers who rely on a vast network of suppliers.

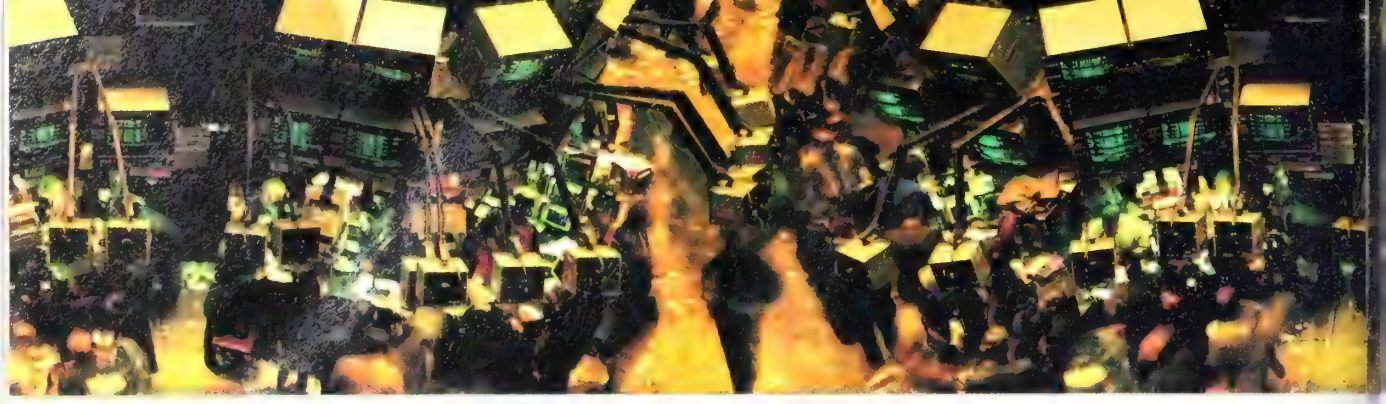
INDUSTRIES: Automobile manufacturing, food processing, retailing

COMPANIES: Toyota, Kraft General Foods, Wal-Mart Stores, Toys 'R' Us

TECHNOLOGY-INTENSIVE BUSINESSES Scale can help to fund risky R&D and to sell a short-lived product in volumes large enough to recoup the investment. This is one area, however, where companies can become captives of existing technology and be overtaken by smaller rivals.

INDUSTRIES: Semiconductors, pharmaceuticals

COMPANIES: Intel, Merck



What makes Wall Stre
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strange things most of

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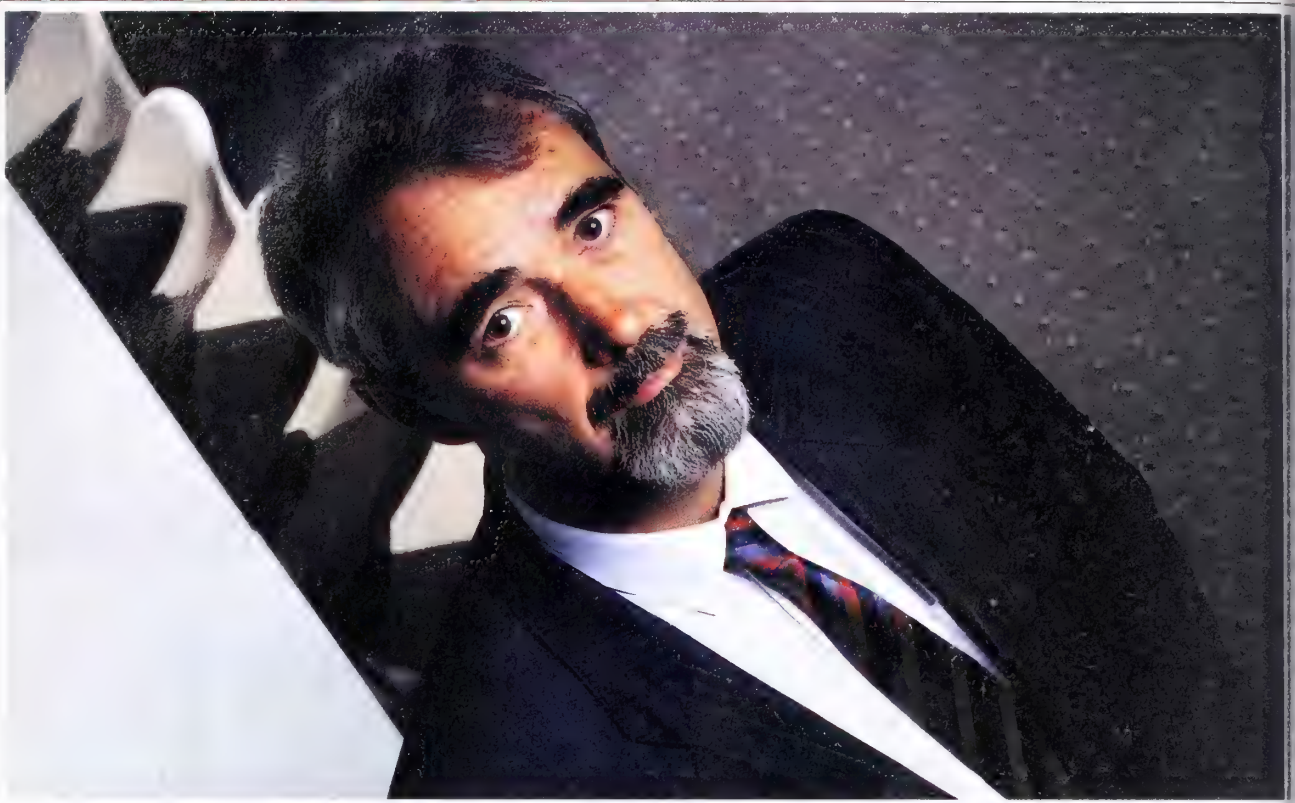


PERCY BARNEVIK'S GLOBAL CRUSADE

ABB's chief has broken the global giant into 5,000 profit centers, slashing all the way

BY GAIL E. SCHARES

Call it Planet Barnevik.

The hard-charging chief executive of Zurich-based ABB Asea Brown Boveri (Holding) Ltd. has seen the future, and it contains no national boundaries. That's why the driven Swede has used more than 60 acquisitions on five continents in just five years to set up a constellation of factories stretching from Stamford to Sydney that would serve a customer base reaching from Kingston to Kuala Lumpur. Put simply, Percy Barnevik wants to sell power equipment to the world. All of it. Everywhere.

This is a global company with a difference, however. Barnevik wants his giant, with annual revenues of $32 billion, to capitalize on local differences but to fear no borders. To do that, he is relying on a human element that knows no nationality: the spirit of enterprise. He is ripping down bureaucracy so executives in Atlanta can launch new products without meddling from headquarters, so power technicians in Sweden can make design changes, and so facto ry workers in India can alter productio methods on their own. "I now have a army of 25,000 in profit-center teams says Barnevik. If you can really build small-business atmosphere, "you don have to push or entice managers ever day. It becomes a self-motivated force

Barnevik's brand of corporate shoc treatment is certainly not for the fain of heart. The ABB chief and his mar agement troubleshooters love to use th R-word—revolution—as their battle cr They quickly slash administrative staff acquisitions by up to 90%. And the don't shrink from savaging an existin corporate culture. "You need a bi chemical reaction to change a compan operating with an outdated view of th

ld," argues Eberhard von Koerber, t's European regional director.
on Koerber knows a thing or two ut strong reactions. He was burned effigy by workers protesting ABB's cal restructuring of the former Brown eri after it merged with Barnevik's a in 1987. Not that the protests ed him down. "The important thing judge how much you can rock the t without sinking it," he says.
hile breaking down the old struc- is critical, it's just the start. The real et of Barnevik's success is his abil- fter clearing the debris from his tear- n-the-house policies, to motivate re- ning managers to stretch themselves ie limit day in and day out—as en- reneurs do.
st ask Joachim Schneider. A Brown eri factory manager when it merged Asea to create ABB, he feared the of the traditional Swiss-German cul- . "We were all more or less function- s," recalls Schneider, who was used elling top management each year his plant simply couldn't produce ofit.
ddenly, Schneider found himself ing a profit center. His success—or re—was now tied to that of his t, which built high-voltage power ons. That brought the point home. ecame clear to me that I personally to push change down through the s," he says.
esults weren't long in coming. neider visited factories in Sweden Barnevik already had humming at ble or triple the efficiency of simi- German plants. He aped those ges back home and was astonished n profits took off in 1989. Two years r, Schneider reorganized his $200 ion profit center, creating dozens of mini centers by line of business in- d of function. "Product units devel- d an unbelievable dynamic which I never seen before," he says.
ven in near-hopeless cases Schnei- found magic. His instinct last year to kill a line of power-plant compo- ts that were getting slammed by cost competition from Poland. But lecided to at least try making even money-loser a profit center and del- ed management to a 35-year-old ex- ive. The manager quickly discov- l his competitive advantage. "He vered faster than the Poles so he d demand a higher price," says neider. The $40 million unit is now of Schneider's most profitable busi- es. "No top manager could have that advantage—they were too far removed from the market," he says.

Key to the success of Barnevik's strategy has been breaking ABB into 5,000 profit centers, each an autonomous business unit responsible for its own profitability and held accountable for its own failure. His guiding principles are the lessons learned from earlier decentralizations at Asea and steelmaker Sandvik. He similarly restructured the merged Asea-Brown Boveri, creating some 1,300 companies with some having as few as 10 employees . "We went overboard in a couple of cases," he admits, "but it's better to go too far than to compromise up front." When it comes to shaking up a big company, he figures, "you can practically never do too much at one time."

Case in point: The old Brown Boveri operations in Germany. Brown Boveri managers initially begged to phase the changes in with three stages over six years, rather than two years. They said that in Germany such radical moves would be impossible and that ABB would have to adapt to the German management culture. "They said: 'You're going to destroy us,'" recalls von Koerber. "I had to hear it every day."

Top ABB executives were not a sympathetic audience. They felt one small cutback after another would be even more demoralizing than restructuring in

A PROGRESS REPORT ON PERCY BARNEVIK

HE HAS RESHAPED ABB . . .

1987 Seven years after becoming CEO at Sweden's Asea, Percy Barnevik announces the merger of Asea and Switzerland's Brown Boveri, creating Europe's largest electrical engineering company.

1988 Major reorganization begins. The Zurich headquarters staff is slashed from 4,000 to 200, peripheral businesses are dropped, 5,000 profit centers created, and seven layers of management are cut to four. The moves trigger massive protests in Germany.

1989 Sales rise 54% and profits jump 53%. Barnevik acquires Combustion Engineering and Westinghouse Electric's electrical transmission-and-distribution business, making ABB the world's top electrical engineering company.

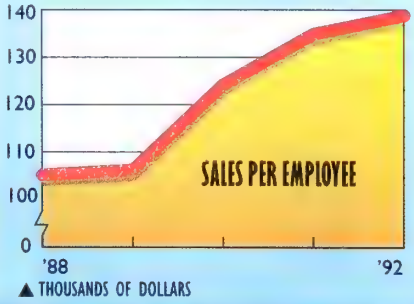
1990 Sets goal of $1.5 billion in Eastern European sales by the mid-1990s. ABB acquires turbine manufacturer Zamech and begins restructuring, sending technology, finances, and skills eastward.

1991 Launches Swedish pilot program to cut by 50% the times to perform all company tasks, from administration to R&D.

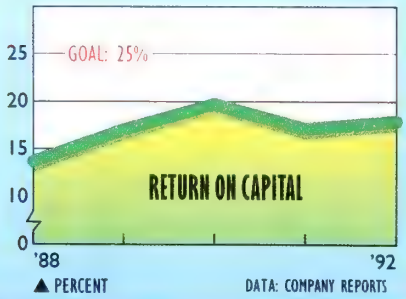
1992 Launches global competitiveness drive. First result: Product cycle times shortened by up to 50%.

1993 Carves up ABB's global business into a triad: Europe, America, and Asia. He shrinks the board from 12 to 8 and actively woos new business in Asia. As the recession continues to hurt sales, he takes a $500 million charge to close 15 plants around the world.

. . . BOOSTING PRODUCTIVITY DRAMATICALLY . . .



. . . BUT PROFITABILITY IS STILL SHORT OF HIS GOAL



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In the spirit of "Butch Cassidy and the Sundance Kid," Paul Newman and his friends built an Old West frontier town complete with general store, theater, dining hall, gymnasium, swimming pool, all-season cabins, woodland lake and trails— accessible to all of the children. The Camp is located in the hills of northeastern Connecticut on a 300 acre site.

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The Hole In The Wall Gang Camp, founded by Paul Newman in 1988, is a non-profit residential summer camp for children with cancer or serious blood diseases. Eight hundred children from 7 to 15 years old come each year, free of charge, from the United States and abroad. For their parents, there are quiet reassurances that every medical need is well covered.

How to join the Gang.

The Camp is open free of charge to children with cancer or serious blood diseases. For more information about the Camp or about making a donation, please write to The Hole In The Wall Gang Camp, 555 Long Wharf Drive, New Haven, CT 06511, or call (203) 772-0522.

THANKS!

—Paul Newman
Founder and President
The Hole In The Wall Gang Camp

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VON KOERBER: WORKERS BURNED HIM IN EFFIGY TO PROTEST LAYOFF PLANS

one fell swoop. A staggered series of cuts also can impair management's credibility. Most important, they figured gradual restructuring would lose critical momentum as opponents gathered strength.

And the opponents were already plenty strong. German management, local politicians, religious leaders, and workers called repeatedly for von Koerber's dismissal. Unions staunchly opposed the proposed cuts of 4,000 people, or 10% of workers. Opponents ridiculed the new "American management style" that focused only on profits.

But von Koerber wouldn't budge, because the very credibility of the merger was at stake. Not only was the largest of the merged company's subsidiaries in Germany but both he and Barnevik feared that Swedish and Swiss managers would launch similar campaigns if they saw the German resistance prevail. "Many hoped it wouldn't work out so they could hide behind it," says von Koerber.

After six months of diplomatically presenting the economic rationale for restructuring Brown Boveri, ABB decided to play hardball. Von Koerber told German union leaders that if they continued to resist change, ABB would be forced to transfer work from factories in Germany to more competitive countries. A compromise was then worked out with union leaders on job cuts—2,500 instead of 4,000—but only on the condition that productivity would rise sharply at factories spared from closing.

But the controversy surrounding his early cuts obscured the crucial incentives at the core of his strategy. Barnevik also enforces three laws at merged companies to encourage personal initiative: Managers can make decisions fast and be right; they can make decisions fast and occasionally be wrong; they cannot make decisions slowly.

That approach has struck a chord with many ABB managers. "My boss lets me run my own business. That's what ABB is about," says Nicolas Stroud, a 20-year Westinghouse Electric Corp. veteran who always dreamed of having his own company. He finally got the chance when ABB bought Westinghouse in 1989. Stroud put his Greensburg (Pa.) power-circuit plant back in the black within a year and doubled sales to $105 million in three years. He didn't see the tough new goals instituted by Barnevik as unreasonable. "Unless you set stretch goals, you won't be competitive," he says. "You don't make all of them, but if you challenge yourself, you make a lot."

One of Barnevik's potent weapons for creating converts is bringing skeptical managers to see ABB in action. He typically gets one factory running at peak efficiency and then shuttles in managers from less-profitable units across the world to see it. "You have to exploit your success stories to break resistance," explains Barnevik. "We human beings are driven by habit, history, and the rearview mirror. If you want to break direction, you have to shake people up, not by threatening them, not by offering a bonus, but by illustrating in a similar situation what can be accomplished."

That climate encourages employe to break the mold and innovate. For stance, to force administrative perso nel to solve problems faster at the ro factory in Birr, Switzerland, Armin Me er, president of ABB's Power Generati unit, moved an entire floor of admin trators out of their separate office bui ing into the noisy factory. Disorient and angry at first, the white-collar st gradually saw the virtue of the chan Factory workers no longer had to tr over to the office building to report su problems as machine breakdowns. No silence in the factory provides eloque notice to the administrators that a pro lem needs attention. "It was my idea have the office in the factory 15 yea ago," says factory manager Friedri Mez. "Back then, I was told it could be done. Workers should work, n talk."

Talking, rather than complex strat gizing, is what Barnevik's manageme method is all about. And at ABB, t talking occurs at all levels, inside ea factory and between managers a workers half a world apart. Each prof center chief regularly reveals his financ and operating performance numbers huge meetings of several hundred mi dle managers. The middle manage then are responsible for sharing th data—both good and bad—with ABB tens of thousands of workers worldwid

Giving workers access to performan figures gets competitive juices flowin But Barnevik takes it one step furth using internal benchmarking as a tool relentlessly boost productivity. Mont ly performance rankings at ABB's transformer plants, for example, p

AN ABB PLANT IN ZURICH: PUSHING EMPLOYEES TO BREAK THE MOLD

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Paperwork in the sauna?

It takes a lot to impress Percy Barnevik. But the 2,000-foot sheer drops to his right and left were awe-inspiring. At 52, the robust CEO of Swedish-Swiss ABB Asea Brown Boveri (Holding) Inc. was on his first ascent of 9,000-foot Mt. Galenstock in the Alps. As they climbed a narrow ridge near the summit linked by safety ropes, Barnevik was told that if he slipped down one side, the guide would have to hurl himself over the other to save the executive. "I asked if he would really do it," recalls Barnevik. "He said: 'Yes. Otherwise, we'd both go down together.'" Novice climber Barnevik was so moved by the team spirit required in mountaineering that he vowed to bring his board of directors next time.

BARNEVIK AND STAFF: NEXT TIME, THE BOARD OF DIRECTORS

Lucky them.

As his board members quickly learned, Barnevik does everything with passion, pulling those around him along to share the experience.

Indeed, schooled from childhood in long workdays—Barnevik toiled early in the family print shop in the coastal town of Simrishamn, Sweden—he hasn't slowed since. His business degree from Gothenburg School of Economics in Sweden and a Stanford University MBA notwithstanding, Barnevik's real success stems from a zeal for hard work. Eight-hour meetings immediately following intercontinental flights are not uncommon. And this workaholic has even been spied doing paperwork in the sauna.

Despite a manic drive and a fast-track career path, Barnevik is—for a European business chief—surprisingly unpretentious and accessible. He meets frequently with all levels of ABB management, from buttoned-down directors at Zurich headquarters to shirtsleeved supervisors on the floor of a turbine factory in Poland—most of whom call him by his first name. "He's like anyone else you would sit next to and have lunch with," says Joachim Schneider, an ABB manager in Mannheim.

Not quite.

Renowned for his speed-reading ability and sharp analytical skills, Barnevik routinely digests long reports and articles in minutes. He never bothers to prepare speeches in advance, preferring to speak extemporaneously on even such dense topics as international economic adjustments.

Away from the office, Barnevik's methods of blowing off steam are equally intense. For example, he occasionally enjoys up to 10-hour marathon jogging sessions, pausing only for short breaks.

Barnevik concedes that many Europeans think his characteristic bluntness is boorish, but he can lighten up. Asked about the risk of splitting ABB into 5,000 profit centers, Barnevik quipped in perfect deadpan: "It's actually safer than having one. Five thousand managers can't all go crazy at the same time."

By Gail E. Schares in Zurich

JACK WELCH ON THE ART OF THINKING SMALL

"Speed is really the driver that everyone is after"

Few chief executives understand the challenge of fostering enterprise within a mammoth corporation more than General Electric Co. Chairman John F. Welch Jr. During his 12 years as CEO, he has transformed GE from a plodding, bureaucracy-laden giant into a lean, sharply focused paradigm of contemporary management. Recently, Welch discussed his philosophy with BUSINESS WEEK *Connecticut Bureau Manager Tim Smart and Senior Editor Judith H. Dobrzynski.*

Why is there such a fascination with small companies? What are you learning from them?

Speed is really the driver that everyone is after. Faster products, faster product cycles to market. Better response time to customers. And there's no question that the smaller one is, and the easier the communication is, the faster one gets. The customer is a much more real person to you, because the customer in a very small company determines what you're going to eat next week. Satisfying customers, getting faster communications, moving with more agility, all these things are easier when one is small. And these are all the characteristics one needs in a fast-moving global environment.

Do you visit with these companies?

I came from a small company. I car from (GE's) plastics company. It was v small, and we ran it like a family g cery store. I would argue that we r GE in a very informal manner. It allo you to get rid of all the ritual and t rigmarole that ties up companies.

Is there a GE business now that is analogous to a small company?

GE Capital has a myriad of activit that replicate that today. I think that c plastics business today is fast-movi and very entrepreneurial. And I thi

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TENNESSEE
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ALABAMA
It Isn't Where You Think It Is.

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:r than it used to be.

hat kinds of businesses within GE moved
›

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ıge, new business. Well, the busi-
that broke the productivity code in
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ı year growth. But they got a mind-
ıround productivity. So they began
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ty to get inventory turns very rapid-
ıat came out of appliances.
an exciting, fast-moving,
lutionary business. GE Cap-
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› *you bring in small-business*
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-off Lexmark]. He came to
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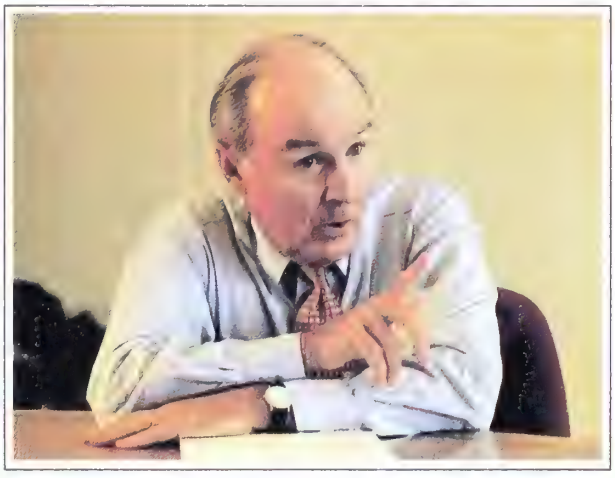
n.

seems that within our corporate culture,

some people who rise to the top might have trouble not giving specific directions, and adapting to this new kind of management.

Don't get me [wrong]. This is not a rudderless ship that we're talking about. The objectives are clearly in focus. We still want to be No. 1 and No. 2 in every business we're in on a global basis. Or we don't want to be in it. So everyone clearly has a focus on what they're doing.... It isn't: "Let's come in and have a party here." It's: "Let's gain share, let's get productivity, let's be sure we globalize."



"If we get the right people in the right job, we've won the game"

Is there a size or development stage when a small company loses its edge?

As a small company expands rapidly, it runs the risk of setting up structures to manage its growth. And it is the trickiest thing in the world to keep a small company on a growth trajectory and maintain the atmosphere that got them to the dance.

What lessons have you learned that they would benefit from knowing about?

Managers tend, in the growth cycle, to question in great depth businesses that are in trouble, but to not question those delivering the goods. [Harvard business school professor] John Kotter, he's got a beautiful diagram. He talks about what happens in high-growth situations and what the organization does. The people start to believe that they are the reasons for the high growth. Then, they organize to manage the high growth. They put in all the bureaucracy, and the bureaucracies start feeding on each other. The customer then gets further and further pushed away.

We have seen any number of companies go up the curve and come down it. Power systems in the early '80s, aircraft engines now. And I take this little thing of Kotter's and every time somebody's behaving this way, I write 'em a little note. And I send this out to them.

Does it then require a different type of manager in the process?

It is very difficult—not impossible, but very difficult—for people who have experienced 10% to 15% to 20%-a-year growth for several years to come to the reality of a changing environment. Now, we've had some successes with this, the most notable one being a locomotive business some years ago where the team did all this and then changed the tires, as we say, while the car was running, because they had to.

Some companies, such as Xerox, have technology ventures where little seedlings bloom. Is there anywhere in GE where you develop really small businesses?

We feel that we can grow within a business, but we are not interested in incubating new businesses. We made a clear, conscious decision—to be argued by some people—that we do not run this incubation laboratory off by itself.

Small-business people say that when they're first starting a business, all of their energy goes into product development or the technology. But then the business gets to a certain size and they complain that all they do is worry about personnel or financing. And they get away from the things they did to get the business started.

That's all we are: personnel directors. But we [headquarters managers] accept that role. If we get the right people in the right job, we've won the game. We spend days and days on assessments of people, interviewing people, talking to people. Picking out stock-option recipients. We're dealing with money to allocate to projects and people to allocate to businesses. And we don't do any product development, any pricing, anything like that.

I think you gotta know what your job

is. And our jobs aren't picking colors for refrigerators or designing crisper trays.

You're fascinated with Sam Walton?
Yeah.

What has GE learned from Wal-Mart? It's not a small business, but–
It behaves like one, and it's entrepreneurial. Wal-Mart, in my opinion, clearly made a connection between the customer and every employee in Wal-Mart. And they work on that every single day. They just can't stand not filling a customer need. If they're out of blankets in Minneapolis, they've got a computer system that will move the blankets instantaneously to Minneapolis. Or their antifreeze is low in Chicago and high in Kalamazoo, they'll move it. An insatiable desire to make customers love 'em. And tying their personal rewards over the years to doing that, they've seen enormous wealth created at all levels of the store.

We have copied that through QMI, quick market intelligence, in various forms. Our medical business, for example. People say, well, you can't do that in a medical business—heavy equipment, magnetic resonance machines, and stuff like that. But every Friday, their QMI session is aimed at medical today. "Tell us what you need to get that installation in next week." And everybody is on the phone. The plant manager, the engineering manager, all the head guys. That's our adaptation of a Wal-Mart thing.

So what happens when that field person says: "I need a cat scanner or an X-ray machine at St. Vincent's Hospital?"
We'll get it there.

What's the chain of things that happens?
The plant then has to get back [and change] their assignment. The manufacturing manager is sitting there. And if there's an installation at Mt. Sinai [Hospital] that doesn't need to be installed that fast, they'll move it to St. Vincent's and fill in Mt. Sinai two weeks later.

You mentioned expanding the reward system from 300 to 14,000 employees?
No, about 8,000, 9,000, something like that.

And that's stock options?
Yes.

That is one of the ways small companies energize their employees.
You should see the pulse of this place when the stock hits 100. The building almost shakes. Because lots of people, at all levels, have options.

How do you decide to give someone a stock option?
Some people believe in giving broad stock options to all employees. We like to differentiate. We have all kinds of guidelines. [For example,] 50 percent of them have to be less than 10 years in the company. To mix it up. So that people aren't just handing it out as a routine thing.

Another small-company thing here is I meet once a quarter with all the purchasing people. And they're all in telling their vignettes about what they're doing, too. We meet with all the sales managers once a quarter. So they're sharing best practices. So doing that, we end up being right down in the trenches on a lot of details. That's a small-company attribute, I think.

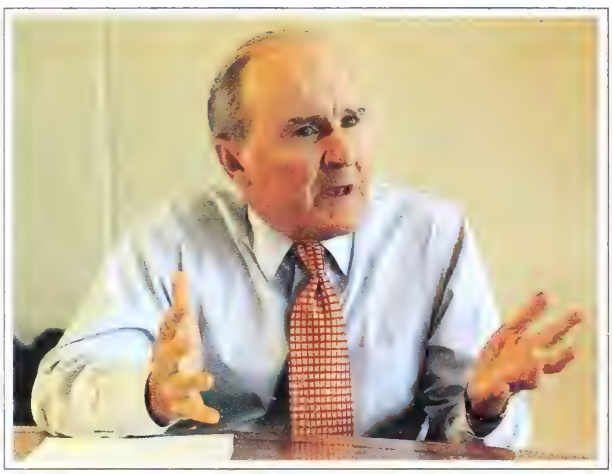
There's a flip side to it, though. There are a lot of small-business people worrying about whether their payroll checks are going to bounce who would love to have GE's financial muscle. So bigness gives y something.
We can stay in businesses that oth people had to leave because th couldn't hang in there. Your traini skills and strengths are bigger and b ter. But the thing that we're all tryi to do—and I don't think GE's any d ferent than anybody else—we're de perately trying to combine the best both.

Is the government heading in the ri direction?
Much of the job creation in sm companies has come from the desire big companies to do what th do best and let small compan do what they do best. Big co panies are the engine for sm companies. The idea that a go ernment is off creating the small things and then they going to do [big] things is a fo of kidding themselves.

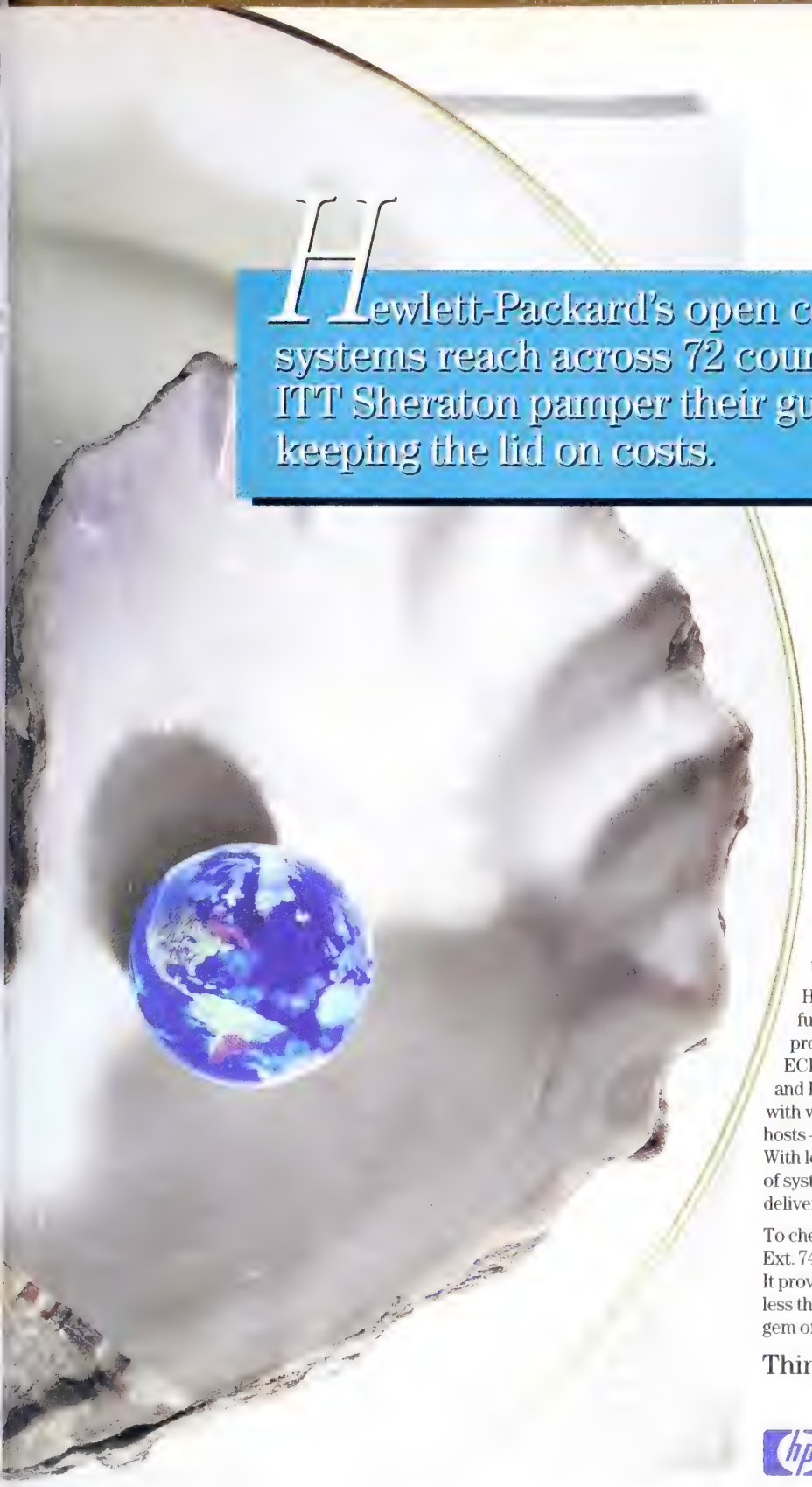
GE people spend a lot of time ing to suppliers....
Working with 'em?

Some would say putting press on them. But it's making them m quicker or sell faster or whatev
I'm not embarrassed to sa "Put pressure on them." I not timid about that. All the small companies that serve the machine shops around all our plants, are gone if we lo the competitive business. If v go out of the turbine busine in Schenectady, [it's] lights o for all the entrepreneurs th have done so wonderfully se ing us.

What about the trend toward breaki up? IBM is the company that people thi of, but other companies feel the only w they can get a small soul is to chop up all parts.
I don't buy that. I think the opport nity for big companies is to create, take advantage of what size brings the And create within that framework t speed, the informality, and the thin you need, the customer contact, of small company. If the only way you c get small feelings is to blow it up, wha the role of management? Because b ing big and agile is better than bei small and agile. The only reason pe ple are small is they can't get big. N body wants to stay small. The objecti is to grow.



"You should see the pulse of this place when the stock hits 100. The building almost shakes"



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LETTING GO IS HARD TO DO

You're used to giving orders? Well, empowerment has its rewards, too

BY JOSEPH WEBER

No-nonsense, decisive—even intimidating. That's the way colleagues used to describe Sharon Jacobs, a 39-year-old middle manager at Hewlett-Packard Co. in Santa Clara, Calif. It was by getting results from her people, after all, that she rose to the top of the company's 260-person direct-marketing organization two years ago. No warm and fuzzy mother hen, even Jacobs termed her own style "very authoritarian."

But spurred by pleas from new staffers, Jacobs has undergone a dramatic change in the past two years. After a slow start, she now regards herself as a "sponsor." She asks her telemarketers to suggest solutions when problems arise. And she listens when even lower-level staffers offer ideas. The payoff? Productivity for the unit's key computer-products group is up 40% this year, employee morale has risen sharply enough to draw a note from HP's president, and the unit's annual attrition rate has plunged 11%.

"I set people a much broader char and then I say explicitly: 'I trust you explains Jacobs. "It really requires a of letting go. [But] they end up de ering far more than the most aggress goal I ever would have set for them.

All across Corporate America, m agers like Jacobs are being forced to go. Downsizings have gutted corpor ranks, boosting the work load shar for survivors—particularly middle m agers. They're overseeing larger sta dealing with far more people who port directly to them, or being forcec delegate to teams of subordinates a colleagues. There's simply too little ti to manage in the old tight-fisted wa

But the change doesn't come easily managers who've climbed the corpor

er through sheer personal drive and nds-on style that borders on benev- t despotism. At first, some cling to ways, working 60-hour weeks to rvise, say, a dozen people who re- directly to them instead of the for- seven. They rile subordinates—who nselves don't have enough time to -sit the boss—and wind up slow- down work. "It is difficult psycho- ally and philosophically for people cognize that their role has shifted being a director and order-giver to ming more of an educator and mo- or," says Ross A. Webber, chairman ie management department at the versity of Pennsylvania's Wharton ool.

example from the boss can help. SF&G Corp., a Baltimore insurer in midst of a turnaround, CEO Norman ake Jr. makes a point of seeing once ek the dozen people who report to —at an informal Monday-night din- Otherwise, he sees them for a thly staff meeting and during the k only as needed. His ratio- : Let people run their own ations, and they'll outper- expectations. "They're not ing for somebody as much nning their own business- says Blake. But he admits ok six years of seeing con- us-style management work panese-owned Heller Inter- onal Inc., which he ran in 1980s, to convince him of value of teamwork and au- my.

xperts say the toughest g for old-style managers to n is that empowerment sn't mean abdication. In managers usually take on e responsibility in a team em or a downsized compa- it's just the execution that's erent, with communication consensus-building becom- paramount. Noel M. Tichy, anagement professor at the versity of Michigan, likens old way to football, a sport re a coach on the sidelines ls in plays and everyone's is tightly defined. By con- , empowered companies op- e more like basketball, re, Tichy says, "you have ely a lot more on real-time rovisation."

ften it takes a crisis to make agers realize that it's time to rovise. Reorganizations that bolster the bottom line typically drive out the managers who can't adapt, and those who are left have no choice but to change. For instance, when J. Michael Bowman joined DuPont Co.'s fibers unit in the mid-1980s, it was a bloated underperformer. Since then, downsizings have trimmed several thousand jobs, and the unit has been restructured into a $6 billion-a-year group of free-standing businesses that have empowered their workers. Today they contribute more than a quarter of DuPont's earnings, even though many of their markets are mired in slow growth.

Surprisingly, Bowman had no problem shedding the "command-and-control" style that marked 20 of his 28 years at DuPont. "People have more freedom, but they have more responsibility," he says. So, he's pushing autonomy more than ever at the advanced-materials business he now runs for the company. "Some people love that," he says, "and to some it's a shock."

Training programs can minimize that shock. Consultants like Tichy take managers off on rope-climbing or mountain-scaling expeditions, where the real purpose is to build trust among team members. Other companies such as CSX Corp. push subordinates to develop after-hours camaraderie. "You really have to feel comfortable with the individual you are giving responsibility to," explains M. McNeil Porter, CEO of the $825 million-a-year CSX Intermodal unit.

Managers also have to realize that once empowerment takes hold, it's not easily cast aside. At Boeing Co., supervisor Mike Ralston once asked a group of workers in a parts-storage area to plan a move to a new building. When moving day came, Ralston promptly told the workers what to haul over first. "They came unglued," he recalls. "They asked me: 'Why are you making a decision? We've worked on this for six months.' I was shocked." It turned out that Ralston had learned that certain critical parts had to be in place early. Belatedly, he explained why in a 45-minute chat, and they came around. But he recalls: "I owed it to them to share with them what I knew."

Managers who yield control to empowered staffers usually become the strongest advocates of the approach. At Bell Atlantic Corp., Assistant Vice-President Thomas M. Podesta oversees about 1,400 people in bill processing and payroll. Once, his job was done by six people in three operating companies. Now, he does it alone, and most of his subordinates police their own work.

Managers who share power have to learn another tough lesson: developing a tolerance for mistakes. Staffers sometimes have to see a project go awry to prevent similar foul-ups in the future. That's often difficult. Admits Boeing's Ralston: "There were times when I had to walk around the building rather than intervene."

So empowerment doesn't mean the end of supervision. Instead, it requires managers to take less pride in their own accomplishments and more in those of the staff they oversee. That kind of new attitude shift can't be forced on managers. But even a recalcitrant boss can learn to let go when he or she sees results.

With Dori Jones Yang in Seattle

HI. I'M BILL, AND I'M A POWER ADDICT

Empowering workers improves corporate performance. But managers accustomed to close oversight often must go through withdrawal. Here's how:

1 FEAR AND RESISTANCE
At first, managers fear losing control as the number of people reporting to them expands and they lose insulating layers of managers below. So managers stay with what's familiar. Some may feel profound loss.

2 TENTATIVE ACCEPTANCE
Managers start yielding authority haltingly, clinging to old habits: many meetings, memos, and close policing of subordinates. Result: overwork, buildup of stress, inefficiency. Training programs can drive home the need to accept new ways and build teamwork.

3 SURRENDER
When they at last see how efficient it is to trust staffers, managers acquiesce. Managers start acting more like coaches than overseers. By letting colleagues help shape policies, managers find people have a stake in their success.

4 ADVOCACY
As they see colleagues enhance the unit's performance, managers encourage subordinates to share authority even further down the line. Now the subordinates face their own cycle of letting go.

DATA: UNIVERSITY OF MICHIGAN, VANDERBILT UNIVERSITY, BW

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TURNING RIVALS INTO TEAMMATES

Little outfits have the fresh ideas. Big companies have the bucks. So why not join forces?

BY KEVIN KELLY

By 1990, it was crunch time for Ford Motor Co. The nation's second-largest carmaker could no longer sidestep investing more than $200 million to create a new diesel engine for its midsize trucks. After all, tough 1994 U. S. emission standards loomed, and the technology needed would require a big research effort. But Ford, pouring cash into its ailing auto business, didn't want to throw money at another problem.

So Ford hit on a novel approach. It plunked down $100 million for a 10% stake in Cummins Engine Co., which had developed a clean-burning diesel. The move handed Cummins both a long-term customer and more cash to continue its expensive research into next-generation technologies. Today, Ford is buying from Cummins more than 30,000 midrange engines, which helped the once-ailing engine maker post earnings of $89.3 million, on sales of $2.1 billion during the first half of 1993.

Ford isn't alone. Across Corporate America, partnerships between giants such as Ford and smaller companies like Cummins are spreading like a prairie fire. This summer, American Airlines Inc. turned the unprofitable short-haul operations at its San Jose (Calif.) hub over to low-cost Reno Air Inc., which will feed traffic to the larger carrier. Drug companies such as Eli Lilly, Merck, and SmithKline are forging bonds with pharmaceutical startups to gain access to their path-breaking technologies. Manufacturers Motorola, DuPont, and Caterpillar are cozying up to suppliers, looking to cut costs by tapping their product design and manufacturing expertise. Says Deborah Wince-Smith, a senior fellow at the Council on Competitiveness: "Big companies have realized it isn't smart to go it alone in a global market."

Indeed, the impetus to partnership can be summed up in one word: competitiveness. Global competition, coupled with the supersonic pace of innovation, has compelled large companies to play every angle to survive. IBM, Ford, and General Motors have found that to cut costs or keep up with technological shifts they need the help of little guys. Small dynamos, free of the bureaucracy that hampers many big companies, often hit on new products, markets, or designs first. "Big companies don't do this to think small," notes consultant Jordan Lewis, who helps companies forge partnerships. "Large companies partner with small ones because the small company has something they want."

Still, the best large companies approach partnerships with a much broader agenda. Some want help cutting costs. Others want a jump-start developing new technologies. Still others want a window onto niche markets that they normally would overlook.

Manpower International, the $3.2 billion temporary-employment-services company, for instance, established in September a national partnership with a $50 million black-owned company to allow Manpower to tap the U. S. minority labor pool better. Many Manpower customers want to diversify their work forces, including staffers hired throu Manpower. "The alternative would h been to look around in each market minority vendors, which would ha been inefficient and couldn't guaran us quality nationwide," explains C Mitchell S. Fromstein.

But while many big service

THE ROAD TO A SUCCESSFUL PARTNERSHIP

1 If the road looks too treacherous to travel alone, consider a partner.

5 The companies have an agreement! But now both must be committed to the agreed-to plan.

6 Say [illegible] get distracted by other projects. D the work the alliance was for pursue

panies are just now recognizing the efits of partnership, manufacturers been converts for years. In the late s, big companies saddled with high-ed union contracts, such as Ford, re, and Caterpillar, started diverting work to suppliers to cut labor costs. r, as suppliers provided more and e of the value of a product—up to in autos—industrial giants had uild tighter links to their suppliers ost quality and lower costs further. ey weren't alone. To boost their growth rates, large pharmaceutical panies over the past 20 years have natically increased their licensing nerships with small startups that developed promising drugs.

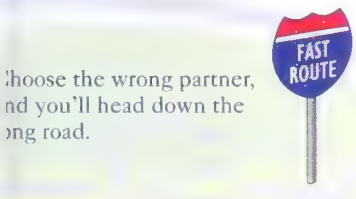
s not just the big boys that benefit ese couplings. Partnering with a be-oth such as DuPont, IBM, or Caterpillar also has advantages for those small fry lucky enough to get tapped. Take Morton Metalcraft Co., a Morton (Ill.) sheet-metal fabricator with $30 million in sales. Three years ago, the company began cozying up to construction-equipment giant Caterpillar, Inc., which initially farmed out some metal bending work to Morton in a bid to cut costs.

Gradually, Caterpillar entrusted more responsibility for product design to Morton, which could do the job better and cheaper, says CEO William Morton. As a result, Morton's sales to Caterpillar are growing more than 10% annually, says Morton. Caterpillar hasn't done shabbily either. When the partners teamed up to tackle cost problems, improvements in excess of 10% have been common.

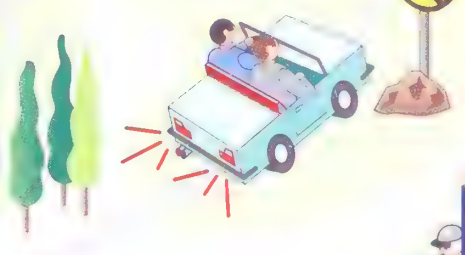
But partnering isn't easy. A not-invented-here mentality still dominates most corporate giants. And even well-conceived partnerships are fraught with opportunities for failure. Why? Despite the successes trumpeted by the likes of Xerox, Corning, and DuPont, big company research and engineering departments greet warily most innovations generated by suppliers and small-company partners. Moreover, what many corporations call partnering remains simply an old-fashioned effort to extract price concessions from suppliers. Says Kenneth Stork, former Motorola Inc. purchasing chief: "When someone suggests a partnership to me, my hand still automatically moves to protect my wallet."

The high-profile efforts by GM and General Electric Co. to cut costs by de-

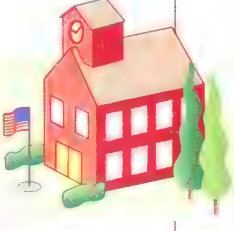
hoose the wrong partner, nd you'll head down the ong road.



3 Be careful not to manipulate or pull power plays during negotiations. Here the soon-to-wed companies need to build trust.



4 Don't move too fast. Get to know your partner; build trust before things get hectic.



8 As the alliance matures, periodically review the scope, structure, and duration of the partnership and make necessary changes.

9 To ensure commitment and communication, keep the original staffers involved as long as possible. And make sure new staffers and top managers are schooled in the importance of the project.

oops...partners battle ecause they've failed evaluate or communi-e or because their com-tment has dropped. Time all the consultants!

10 Do these and you'll reach the finish line.

manding price reductions from suppliers certainly reinforced this view. Suppliers to GE's appliance division were invited to partner with the unit in exchange for 10% annual price reductions. "They didn't care how much cost you had already taken out," grouses one GE supplier. "It was patently unfair." Similarly, GM's former purchasing guru, José Ignacio López de Arriortua, tore up long-term contracts and demanded price reductions from suppliers. The controversial effort, says GM, saved the company $4 billion on parts.

But overemphasis on cutting component prices is a rationale many U. S. companies are trying to leave behind. "Corporations are finding there's only just so much blood you can squeeze," says James P. Kuhn, a vice-president at consultants A.T. Kearney Inc. Instead, manufacturers are increasingly forging long-term relationships with suppliers to work together as a team to hack away at costs, often sharing the savings.

Take Chrysler Corp. When it started designing its Neon subcompact in 1990, it involved 25 key suppliers. They helped engineer the car and negotiated target prices for parts up-front, allowing them to design for cost containment. The result: Development took three years, compared with an industry average of five, and cost just $1.3 billion. By contrast, GM's Saturn cost $5 billion.

One hotbed for partnering has been the drug industry, where established manufacturers such as Merck & Co. increasingly rely on small companies for new-product ideas to augment their own research efforts. Frank Baldino, president of Cephalon Inc., a West Chester (Pa.) startup that spends most of its funds on research, says: "Why not hook up with us and do it for 10% of the cost?"

That's happening more and more. For example, two years ago Eli Lilly & Co. needed a way to deliver drugs to prevent heart blockage from recurring after an angioplasty, a procedure used to open blocked arteries, which has become a booming business for Lilly's medical-device division. Meanwhile, Zynaxis Inc., a Malvern (Pa.) startup, had a drug-delivery system but needed a deep-pocketed partner to help with the clinical trials, which can cost up to $200 million.

So a partnership was struck. For a $3 million investment in Zynaxis and a further $1.26 million a year to speed research, Lilly secured the technology. Although a product is still a few years off, says Lilly director of drug-delivery devices Robert W. Scott, early signs are promising.

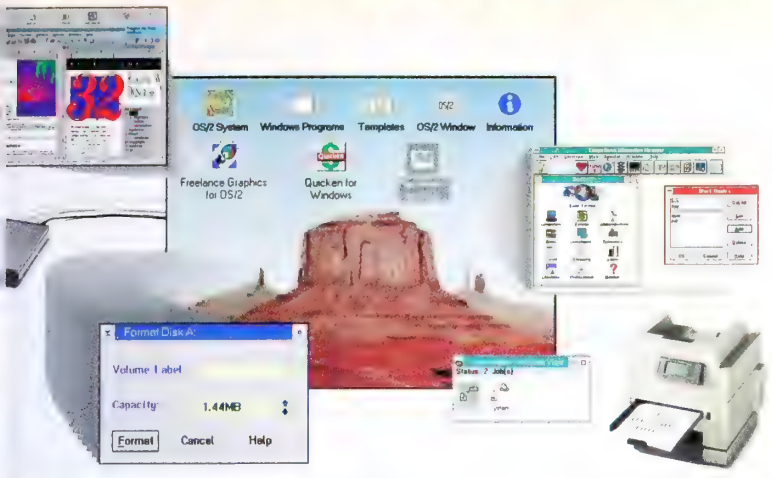
Even with all the success stories, partnering remains a stretch for many corporations. The need to build mutual trust often conflicts with their standa operating procedures. It's essenti therefore, says former Motorola purch ing chief Stork, to build a corporate c ture that values cooperation and to co municate constantly.

DRAFTED: MORTON WAS TAPPED FOR DESIGN HELP BY CATERPILLAR

At Motorola, for instance, former Ch Executive Robert W. Galvin used make presentations about the imp tance of close relations with supplie And executives at DuPont Co. m quarterly with managers at Milwauke based W. H. Brady Co. to set goals their partnership, which sells a join developed product used to post ads the sides of trucks. Project teams of lo er-level workers meet even more oft says William Hayes, Brady's gene manager .

Obviously, building partnerships tak time. But where corporations such Ford and Caterpillar have made the fort to find capable teammates, the ga have been unmistakable. Indeed, wh thinking small may be the order of t day in America's big companies, son times it's enough to just find a partn —albeit a smaller one.

With Wendy Zellner in Dallas, E Schine in Los Angeles, and James E. E in Chicago



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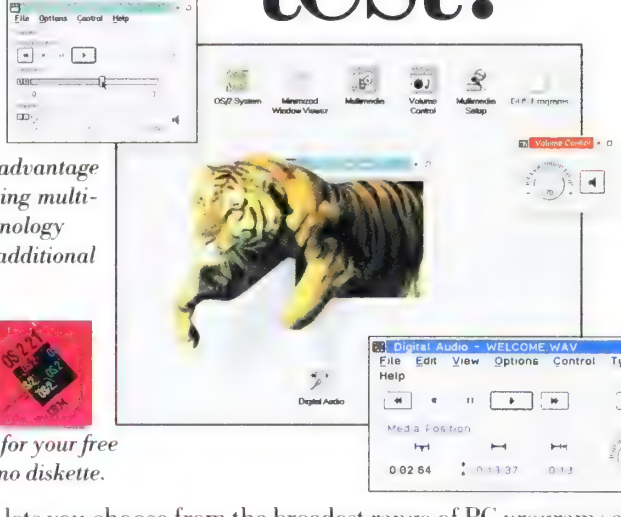

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APAN INC. FINALLY TARTS ITS DIET

Corporate socialism ves way to greater dividual initiative, wer automatic omotions, and nk slips

ROBERT NEFF

ironobu Yagata confronted a fright- ıg reality last June. Audio and video built by his division at Sanyo Elec- Co. were rapidly losing competi- ness as the yen soared and produc- costs at home remained intractable. ɔresident of Sanyo's A/V Business ıdquarters, Yagata knew the only so- ɔn was to shift as much of his man- turing as possible from Japan to low- ost countries such as Malaysia and na–and the sooner the better.

ntil last year, making such a deci- ı would have required months of sensus-building throughout the com- y in time-honored Japanese man- ment fashion. Yagata, like most ınese managers, simply lacked the ıority to make quick decisions. So vould need to consult scores of prod- and strategic planners, people in the ing and sales divisions, overseas pro- tion managers, as well as top Sanyo ıagers before making changes.

o longer. Thanks to a "no excuse" entralized management structure pted by Sanyo last year, Yagata ckly consulted with several key ex- tives who would be directly affect- by the decision. Then, he drafted reasons for his plan and its antici- pated results and informed all concerned of his decision. He alone assumed responsibility for his decision, ultimately saving Sanyo from costly delays during a time when swift action was critical to the bottom line. By 1996, 70% of the TVs Sanyo sells in Japan will be made abroad, more than double current levels. And 90% of its audio products for the domestic market will come from offshore, compared with 70% now.

What may sound like routine decision-making in a Western company constitutes no less than a revolution-in- the-making at dozens of top-heavy, over-manned companies that got fat during Japan's rapid-growth "bubble years." Now, mired in recession and faced with heightened competition from such rapidly developing countries as South Korea and Taiwan—and even from resurgent U. S. industry—Japanese companies are bent on slimming down, delayering management, and delegating more responsibility to individual executives. Indeed, a recent survey of 250 big companies by Tokyo's Industrial Labor Research Institute found that 49.6% of them plan to reduce management ranks.

SANYO'S TAKANO: "WE'LL HAVE TO FIRE THOSE WHO CAN'T GET THE JOB DONE"

"Japanese companies are now going through the restructuring that U. S. com-

CAROLINE PARSONS

panies have been going through for th past 10 years," says George B. Grae director of the Center for the Enhanc ment of International Competitivene at the University of Cincinnati. "Th are starting to wonder if they can co tinue to afford the cultural costs of the way of doing business."

This tougher line is sending shoc waves throughout Japanese society. Sue sacred cows as lifetime employment major companies, automatic promotio and avoidance of individual responsib ity can no longer be taken for grante It's a trauma difficult for Westerners understand, thanks to Japan's uniqu culture and social imperatives.

Unlike Americans, who prize indivi ualism and risk-taking, Japanese a raised to think of themselves first members of a group. The common i terest takes precedence over individu initiative and accomplishment. Wha more, most Japanese derive their ide tity mainly from where they work. Ar management's priority is to provide s cure jobs. If that hurts profits, so be i

This sclerotic employment policy w essential as labor-starved Japan rebu itself after World War II. The policy w perpetuated by Japanese employers wh invested unusually large amounts to tra workers they didn't want to lose. But competition mounts, Japan's econom matures, and Japanese companies glob alize, such traditions as consensus dec sion-making and automatic promotion based on age and seniority are becom ing luxuries Japan can ill afford.

Focusing on white-collar efficiency important because, despite rapid growt overall productivity in Japan still trai America's by about 25%. Most of th lag stems from the inefficient servic sector and bloated staffs at manufactu ers. Between 1976 and 1990, for exam ple, the cost of sales administration publicly-trades companies in Japan ro from 12.3% of sales to 16.3%, accordi to the Japan Productivity Center.

Kuniyoshi Sasaki, director of the cen ter's research institute, blames this on proliferation of "useless" jobs aimed accommodating baby boomers gainin seniority. This practice was affordab during the go-go days but has becom difficult to stop in lean times becaus huge numbers of boomers were hire 25 years ago with the implicit promis of ever-upward promotions. "Jobs her are less clearly defined than elsewhere Sasaki says. "Companies first hire peop and then think about what job they ca do. Layers grow, and networks get ver complicated."

ch executives as Sanyo Electric dent Yasuaki Takano are out to cor- this. During the past two years, no has slashed the number of head- ers departments to 17 from 36, re- ng the staff count to 1,350 from). By 1995, he plans to trim his pay- hrough attrition to 27,000 people the current 30,600. Takano has also ıctured the company into eight di- ns, each headed by a "president" is accountable for everything sales and production to capital in- nent. "We treat them as separate ɔanies," says Takano. "They each their own profit-and-loss statement balance sheet. We'll have to fire e who can't get the job done." ıyo is far from alone. Two years ago, l with its first-ever losses, office ɔment maker Ricoh Co. cloistered executives in a Tokyo hotel room ıree days of meetings to forge a re- turing plan. The result: Ricoh will ts 14,000 payroll by 28% by 1996, ding slashing half its headquarters by 1995. It also is assigning 500 e-collar workers at a time to four- h stints on production lines to re- the need for part-time workers. ɛewise, to minimize costs and make e-collar employees more market- ɔious, Matsushita Electric Industri- ɔ. is about to start assigning 1,000 lle managers and 1,000 new college graduate employees to work in company-affiliated stores. Matsushita continues to pay their salaries. Other companies, such as Asahi Mutual Life Insurance Co., take such stopgap steps as reducing overtime by turning out the lights at 5 p.m. on designated days and locking the copy machines of sections that exceed their photocopy budgets.

Thus far, no large employer has resorted to mass layoffs or firings. Doing so would shatter the social contract. So corporations that need to shed more workers faster than attrition allows are reassigning managers over a certain age, usually 50, to subsidiaries. That basically shifts the bureaucracy to less visible parts of the economy—but ones that needn't worry as much about international cost competitiveness.

Other employers such as Nippon Telegraph & Telephone Corp. and IBM Japan Ltd. are adopting voluntary early-retirement plans. These aren't as popular as in the U. S., however, because retirees lose the status of their former jobs. Also, the relative lack of venture capital and the lower regard for entrepreneurship in Japan mean that few see early retirement as an opportunity to start their own businesses.

Solving this lack of entrepreneurial instincts will be key to the full success of Japan's corporate restructurings. Indeed, making individual managers more accountable won't achieve much unless they're also made to think more creatively, take initiative, and assume risk.

"Future management has to put more emphasis on individuality to get the kind of innovation that we'll need," says Yoshio Maruta, chairman of Kao Corp., a leading maker of household and personal-care products. That will test some deeply ingrained cultural attitudes. But Japanese can be quick learners and resourceful survival artists. Just ask Hironobu Yagata.

With James E. Ellis in Chicago

PAN TAKES THE KNIFE TO BUREAUCRACY

ched by recession and expensive cultural practices h as lifetime employment, Japan Inc. is being ɔed to cut costs and eliminate stifling overhead.

MPANY	RESTRUCTURING STEPS
IOMOTO	The leading food producer has cut its product line to 2,500 items from 4,000 to reduce development and design costs.
AN TOR	The auto giant will shutter a major plant in 1995, reduce the number of expensive-to-develop models and options it offers, and cut payroll by 5,000 by 1996.
D TORS	The truckmaker has cut its number of small work units to 193 from 305.
ICHI	Divisions for the first time are profit centers, responsible for their own results.
	The telecom giant will eliminate 10,000 jobs by 1996 through attrition and voluntary early retirement.

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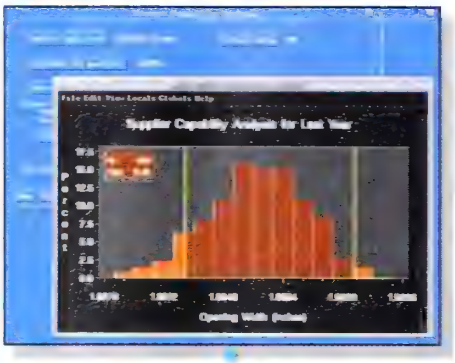
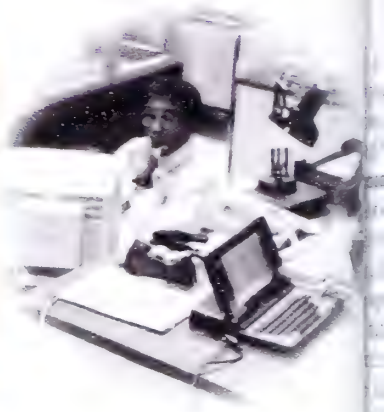
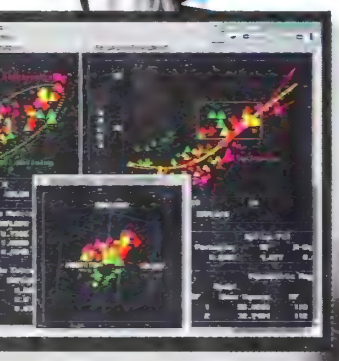
The SAS System for Information Delivery is a new concept in client/server software. It provides workable strategies for overcoming the barriers that stand between people and the information they need. For instance, the SAS System strategy for **universal data access** makes it easy to reach all your diverse "islands of information"—including host system files, flat files, and corporate DBMS's such as DB2, ORACLE and dBASE.







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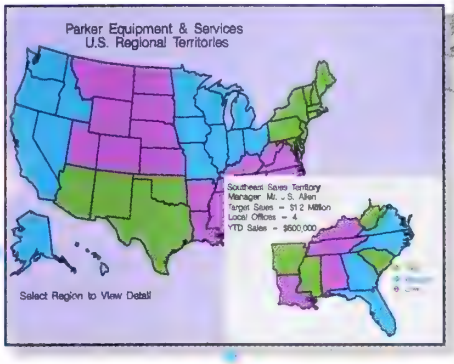

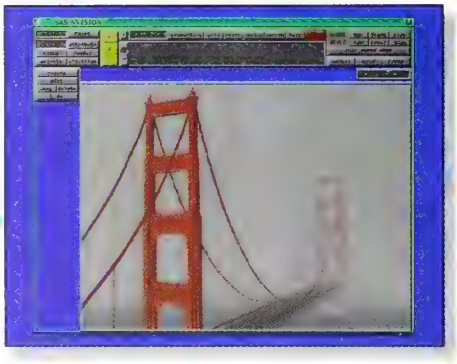

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NORTH CAROLINA

WHERE BUSINESS RECEIVES A WARM WELCOME

WHEN SCHLEGEL CORPORATION set out in 1992 to find a location for its automotive trim and rubber molding plant, it had a long list of requirements. The company, owned by the giant British Tire and Rubber, wanted the plant in a rural setting—but close enough to an urban area to enjoy its amenities. It wanted a strong, skilled labor force and training to keep them skilled. It wanted certain incentives from the state, plus good roads and easy access by air to all parts of the

(continued)

PHOTOS TOP TO BOTTOM: Downtown Raleigh, North Carolina, seat of the state government; traditional industries, including agriculture, remain an integral part of North Carolina's diverse economy; advanced computer interactive technology in use at North Carolina Hydro Electronics in Roanoke Rapids; Charlotte, North Carolina, the new financial powerhouse

INTRODUCTION

by Charlie Rose

I grew up in the heart of North Carolina. My father owned a country store that he bought from my mother's father. Whatever I learned about conversation came in part from that store where my father put me to work from an early age. The talk was of sports, politics, farming, family, and gossip. But, even then, I would go to the second floor porch and watch the trains go north to New York and south to Florida. I dreamed of leaving North Carolina and finding my place in the world. And I did. And soon thereafter, I dreamed with equal passion of finding my way back. I find my history here, my family, defining influences, and today emerging from that land a vibrant modern state as much of technology as of agriculture. I received my values and my education here. It has given far more to me than I have to it. Perhaps the only job I would like more than my own would be Governor of North Carolina where I could get to travel, meet its people, and enjoy its variety.

I stand in line with other proud North Carolinians who have celebrated our state in book and song. I heard James Taylor acknowledge the other day his favorite song was *Carolina in My Mind.* The list of accomplished North Carolinians (tar heels) is huge. Those like Edward Murrow, David Brinkley, Sam Ervin, and Andy Griffith have writ large on the national stage. Scratch a tar heel and you will find more than someone who gets excited every time Duke or Carolina wins the NCAA final four. (For you non-basketball fans that's the last three years.) And who has brought more pride to North Carolina than fellow North Carolinians like Dean Smith, Mike Krzyzewski, and Michael Jordan. For each of them and those less famous you will find a memory of place that lives in their soul. And their experience is as different as the different sections of the state whether it be the mountains, the Piedmont, or the coast.

This state is just beginning to confirm its greatness. Governors from Aycock to Hodges to Sanford to Martin and Hunt and educators like former University of North Carolina President William Friday have given us roads and schools and so many other things that set the framework for the future. We are a work in progress, letting our memory of our failures be a mandate for how we treat each other and the place we leave for our children. Much can be said, and will, about North Carolina and business. Their stories are also part of our history whether it be agriculture, textiles, furniture, or banking.

As I write this it is early morning in Wrightsville Beach. The sun rises over the Atlantic and the moon descends behind the Intra-Coastal Waterway. It is the end of my North Carolina vacation. But this time is better than some. A little more than a month from now I bring my television program back to North Carolina to celebrate the bicentennial of one my favorite institutions, the University of North Carolina. It is symbolic of what our state is about. It has a memory and a tradition. It is growing in many branches. And it serves as a stairway to the future and magnet for those who come to live in our boundaries.

For a man of Duke to say that, it must be an incredible institution. It is. Just like the state I call home.

U.S. and abroad. And it wanted all the things that make for a good quality of life for its employees.

The search narrowed to five sites, then two — Rockingham County, North Carolina, and a community in Kentucky. "It was a close call, and there wasn't one single thing that tipped the balance," said Rudy Williams, Schlegel Corporation's manager of facilities engineering. "North Carolina had the best overall package of assets. The state is committed to helping people as well as helping companies."

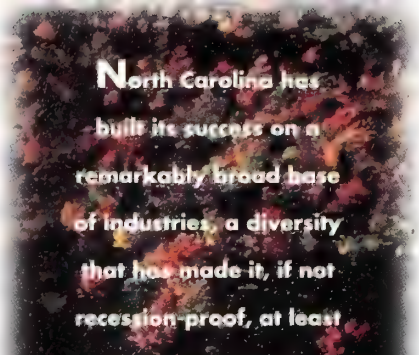
More and more businesses like Schlegel are discovering the unique combination of assets that makes the state of North Carolina ideal for growing a business. From high technology to basic manufacturing, from sophisticated services to trade and distribution, from small entrepreneurial start-ups to large multinational companies, North Carolina-based firms are enjoying record levels of prosperity.

CONSIDER THIS...

☼ In five of the last six years North Carolina has led the U.S. in the number of new manufacturing starts.

☼ More than $33 billion in business investments over the past seven years has created in excess of 400,000 new jobs.

☼ North Carolina led the nation in 1992 in the number of new international facilities locating in the state. One quarter of the $3 billion in manufacturing investments announced in 1991 came from international companies.



☼ North Carolina's exports — ranging from high-technology electronics and fiber optics to furniture, textiles, and tobacco — reached every continent and gave the state a $1.4 billion trade surplus in 1992.

THE SECRETS OF SUCCESS

North Carolina has built its success on a remarkably broad base of industries, a diversity that has made it, if not recession-proof, at least recession-resistant. The state's unemployment rate is among the lowest in the nation.

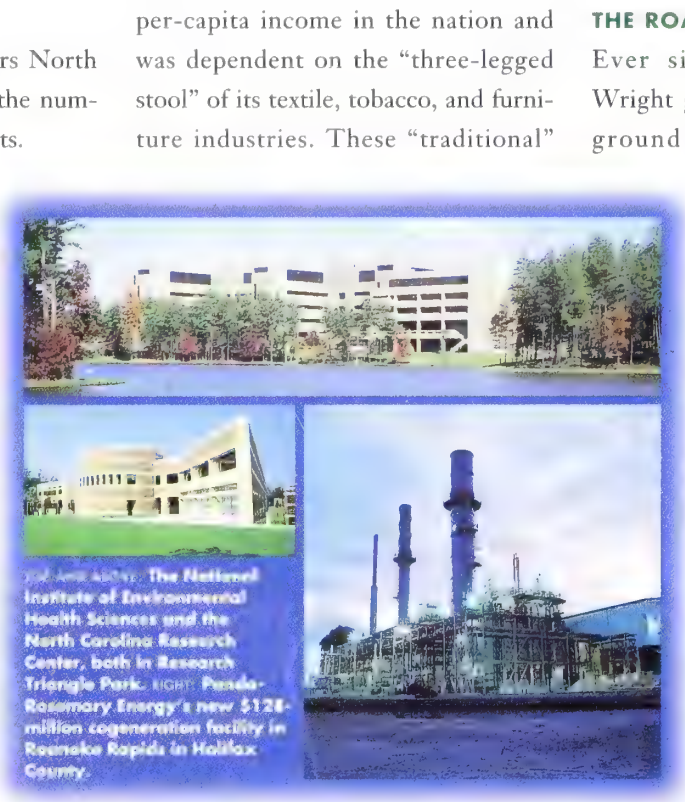
But it was not always so. In the mid-1950s, the state had the second-lowest per-capita income in the nation and was dependent on the "three-legged stool" of its textile, tobacco, and furniture industries. These "traditional" industries have continued to thr The state dominates the $35 bil furniture industry, employing 87,0 people and producing 35% of all h home furniture in the world. Six hu dred of the 3,000 U.S. furniture pl are in North Carolina. The lead tobacco manufacturer, 100-year- RJ Reynolds Tobacco Company, metamorphized into RJR/Nabis makers of Planters Peanuts, Lifesav and many other products. Gree boro-based Burlington, Unifi, C Mills, and Guilford, among oth have used increasingly "high-te processes to remain a strong force the highly competitive world-wide t tile industry.

Yet today a wide range of high-te nology and bio-technology industr manufacturers, financial and serv industries have been added to the m creating a many-legged base for su porting strong economic growth.

THE ROAD TO DISCOVERY

Ever since Wilbur and Orvi Wright got that first airplane off ground at Kitty Hawk, Nor Carolinians have aspir to scientific discove But it took some doi to get North Carolina the map as a center f high-technology.

A major catalyst w the development in t 1950s of Research T angle Park, a 6,800-ac tract strategically san wiched between three the state's premier educ tional institutions Duke University Durham, North Caroli



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►*New Terminals.* 1992 marked the opening of two of the world's most modern terminals at LaGuardia and Pittsburgh.

►*A New Alliance With British Airways.* Ultimately, we'll be able to take you to 339 cities in 71 countries, and offer you a new world of service, superb quality, and international style.

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North Carolina is creating the world's fastest wide-area, multi-media communications network, the North Carolina Information Highway.

State in Raleigh, and University of North Carolina at Chapel Hill. At the time of the RTP's creation, North Carolina made no one's short list as a site for the emerging high-tech research and development industry. A visionary group of business, government, and academic leaders kept the idea afloat when skepticism threatened to sink it.

Today, the RTP is the largest university-affiliated research park in the world. Sixty-five companies employing 34,000 people make their homes in RTP, including such giants as IBM, Glaxo, DuPont, Harris Microelectronics, Northern Telecom, and SAS. "What you have here in the RTP is a scientific culture where your neighbors are engaged in high-tech research," says Ramona Jones, spokesperson for Glaxo, Inc., the U.S. subsidiary of the $7.2 billion U.K.-based pharmaceutical firm. "That, plus the cultural advantages of being near three major universities, makes it very easy to recruit trained workers to North Carolina."

In addition, many of the products conceived in the R&D laboratories are now also being manufactured in plants all over the state.

Glaxo came to North Carolina in 1983 with 40 employees. Today the company employs 6,300 and posted $2.8 billion in sales in FY 1992. Glaxo employs 670 in its manufacturing firm in Zebulon, 40 miles from the RTP.

"Companies engaged in R&D in the Park are [illegible] manufacturing to the state," says RTP's Vice-President Gary Shope. It's like dropping a stone and watching the ripples go out."

The success of the RTP has spawned other research centers: University Research Park, aligned with the University of North Carolina at Charlotte and Centennial Campus at North Carolina State University in Raleigh. In addition, nearly 500 research projects are underway at the Bowman Gray School of Medicine and Baptist Hospital in Winston-Salem. Some of that research has made the jump to the business sector: Carolina Medical Electronics in King, N.C. is developing trans-cranial doppler ultrasound, which listens to blood rushing through the head's arteries to find blockages, an important step in diagnosing thos[e] risk for strokes. The Piedmont T[ech] Research Institute created in 199[3] Winston-Salem will help speed technology transfer by attracting s[pin]-off companies interested in hookin[g] with Bowman Gray's research effor[ts].

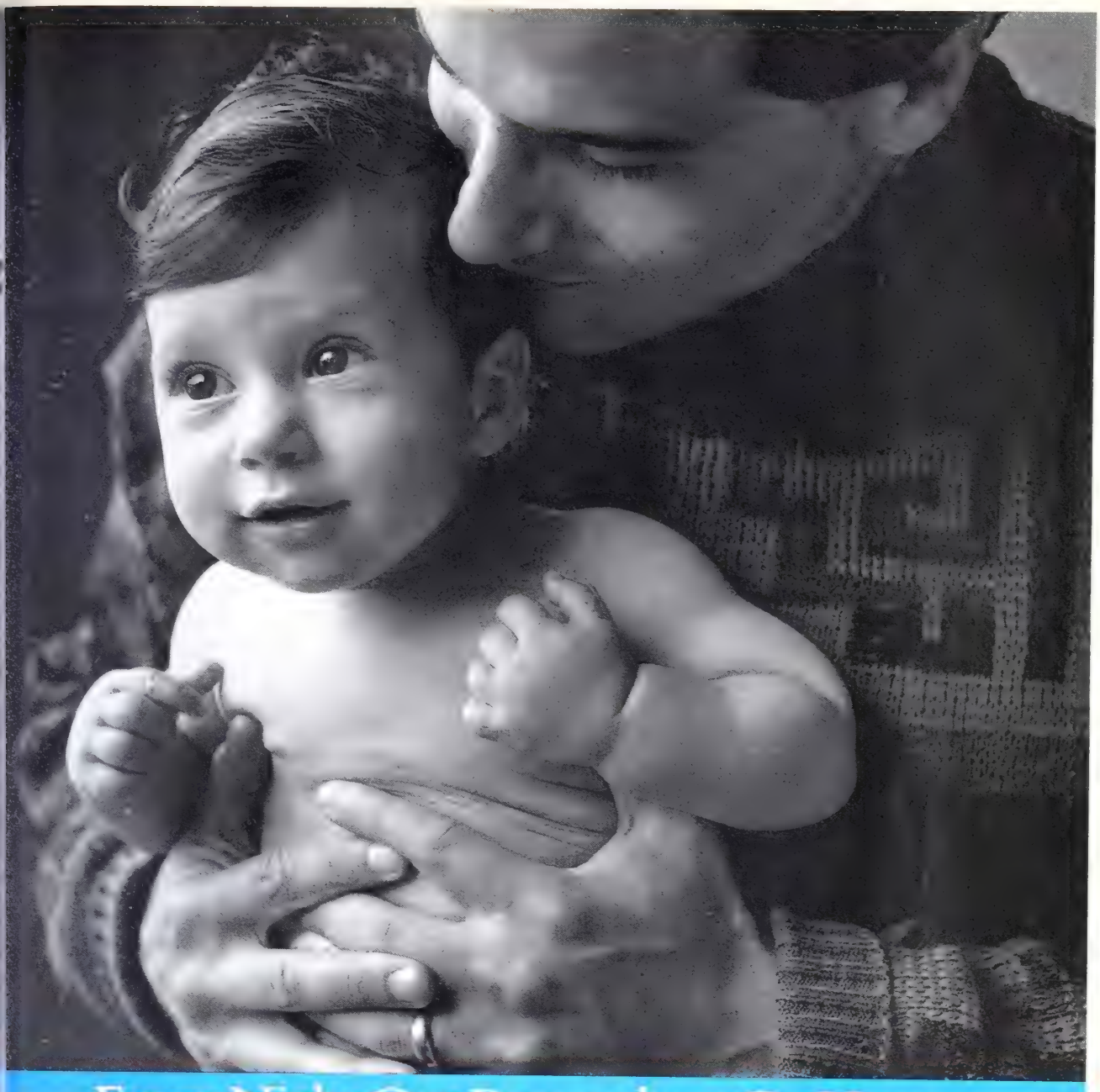
Research and technology tran[sfer] gets added support from the s[tate] through the NC Biotechnology Ce[nter] and MCNC (Microelectronics Ce[nter] of North Carolina). In fact, [the] Supercomputing Center wi[th] MCNC offers the fastest comp[uter] links in the Southeast for univers[ities] and hospitals.

THE HIGHWAY TO THE FUTURE

North Carolina is creating the wo[rld's] fastest wide-area, multi-media com[mu]nications network, the North Caro[lina] Information Highway. The sys[tem] uses the highly advanced A[TM] (Asynchronous Transfer Mode) te[ch]nology which allows a single op[tical] fiber to transmit the equivalen[t of] 30,000 simultaneous communicat[ions] — including computer words, graphics, television-like video, [and] voice.

"An entire encyclop[edia] can be transmitted in[the] time it takes to [say] 'Encyclopedia Bri[tan]nica,'" says Gover[nor] James B. Hunt, Jr. "[The] highway will give [us] dramatic new chanc[es] educate our child[ren] provide medical serv[ices] create jobs, stream[line] our criminal justice [sys]tem, and increase the [ef]ficiency of our gove[rn]ment."

FAR LEFT: The University of North Carolina at Chapel Hill. LEFT: One of the most successful teams in the NBA, the Charlotte Hornets. BOTTOM: Pinehurst is the site of the 1994 U.S. Senior Open and the 1999 U.S. Open.



Every Night Our Researchers Go Home To Reminders Of Why They Spend Their Lives In The Most Difficult *Search* On Earth.

No one can see more clearly than when looking into the eyes of a child. You can see there the importance of finding cures to illnesses that shadow the life that lies ahead. At Glaxo, we make medicines. But our real job is to find them. And our search continues. Relentlessly. Unceasingly. Throughout the Glaxo network of scientists committed to finding answers. And medicines. And keeping the light in the eyes of our children.

Glaxo. On The Brink Of Discovery.

Glaxo
Research & Medicines

The system puts North Carolina at least a decade ahead of other states and will undoubtedly attract businesses looking for a state-of-the-art telecommunications infrastructure. BellSouth, GTE, and Carolina Telephone have joined forces with the state to have the system operational beginning in 1994.

That North Carolina is the first state to create such a sophisticated information system surprises no one. Says Dan Carpenter of Fujitsu Network Switching: "The Information Highway was prompted by all that's happening in an already progressive state. Industries, like medical technology, were already using advanced high-tech information systems. The state simply saw an opportunity to link all of these services together." The Raleigh-based Fujitsu Network Switching created the switch that enables high-resolution voice, image data, and video transmissions to travel along the Information Highway.

WHERE IDEAS ARE BORN

That North Carolina still nurtures a visionary spirit can be seen in the number of entrepreneurs who have put down roots in the state.

Thomas Built Buses of High Point started out building street cars in the early part of the century. Today it supplies buses to school systems around the country. T.W. Garner Foods of Winston-Salem turned a family recipe for hot sauce into Texas Pete, a best-seller across the U.S. Cases were even sent to the Persian Gulf during Desert Storm to liven up soldiers' meals.

North Carolina native Bob Luddy began his Captive Air company out of his garage about ten years ago. Today, Captive Air is the largest manufacturer of kitchen ventilator systems in the country with 200 employees and sales of $30 million last year. "We found that the community college and university grads here were very skilled in what we needed," says Luddy. Now Luddy is heading up the state's Entrepreneurial Governing Board to insure that other up-and-coming companies get the support and financing they need to flourish. "I think we're beginning to see the tremendous growth potential of some of these small companies," says Luddy. "We're getting more tuned in to their needs."

FROM CARS TO CINEMA: NORTH CAROLINA'S EMERGING INDUSTRIES

☼ *In the Driver's Seat.*

Over the past decade, a quiet revolution has occurred in the nation's automobile industry. Numerous suppliers to the auto companies once traded in the Rust Belt for the Sun Belt, with the result that North Carolina now has 50,000 people employed in almost 300 companies producing automotive equipment, parts and supplies.

Says Rudy Williams of Schlegel, "North Carolina has a significant long-range commitment to training our workers, which will be very advantageous to us over the long haul."

☼ *Lights...Camera...Action!*

Remember those lush mountain scenes in *Last of the Mohicans* or the small-town quaintness of *Bull Durham*, *Rambling Rose* or the country farm in *The Color Purple*? These films are among some of the motion pictures for television or the big screen that have been shot totally or partially in North Carolina since 1980.

In the last decade North Carolina has become the third most popular location for filmmaking in the country, behind only the well-established centers of California and

TOP LEFT. **More than one third of all the furniture in the world is manufactured in North Carolina.** BOTTOM LEFT. **A textile worker uses computer-assisted design to create fabric patterns at Cone Mills plant in Greensboro.** ABOVE. **Strong economic growth has spurred the home and business construction industry.**

OUR NEW GOVERNOR MEANS BUSINESS.

Jim Hunt means business. When he took office as Governor, he pledged to drastically increase the number of businesses that move to and expand in North Carolina. That means even better financial incentives for you–from increased Jobs Creation Tax Credits to aggressive financing programs. Whatever your needs, Governor Hunt will work with you to create a custom designed package guaranteed to make North Carolina the perfect climate for your business.

And that's just the beginning. There are additional incentives, grants, work force screening, training and tax advantages that have helped make North Carolina one of the nation's top PRO-BUSINESS, PRO-JOBS locations, with a thriving economy that consistently outpaces the nation.

To learn more about the bottom line advantages of locating in North Carolina, contact David W. Sheehan, Client Services, State of North Carolina at (919) 733-4977, fax (919) 733-9265. And get ready to profit from a state–and a Governor–that means business.

NORTH CAROLINA
The Better Business Climate®

North Carolina Department of Commerce, Business/Industry Development Division, 430 North Salisbury Street, Raleigh, North Carolina 27611

York. The film industry has plowed nearly $3 billion into the state economy and employs more than 2,000 workers.

Beginning this fall, students will begin classes at the North Carolina School of the Arts' School of Filmmaking, insuring the next generation of filmmakers and producers will know first-hand about the state's many assets.

North Carolina's location and its excellent transportation network make the state ideal as a business and distribution center.

SPORTS CAPITAL OF THE SOUTH

As this article goes to press, North Carolinians were waiting with bated breath for the announcement that Charlotte would become the home for a new NFL expansion team. If the award is made it will be further confirmation of North Carolina's growing stature as lucrative sports center.

Consider the story of the NBA Charlotte Hornets. After the team was established six years ago, it took all of six weeks to sell out all games. Today, it's still standing room only when the Hornets play and the team is second only to the Chicago Bulls in NBA merchandise sales.

"The Hornet's success has caught everyone's attention," says Spencer Stolpen, president of the franchise. "That's why the NFL is so interested. We've been successful because of North Carolina's vibrant economy and cosmopolitan atmosphere."

North Carolina is considered by many to be the golf capital of the world. The state boasts an array of golf courses, including the famous Pinehurst Resort and Country Club, which will be the scene of the Senior Open in 1994, the U.S. Women's Open in 1995, and the U.S. Open in 1999.

COMING AND GOING, AN IDEAL LOCATION

North Carolina's location on the central East Coast and its excellent transportation network make the state ideal as a business and distribution center. Within 700 miles are 64 of the nation's largest metropolitan areas, 61% of the U.S. industrial base, and 20 of the 27 states with at least $20 billion in retail sales.

Business travelers enjoy direct flights to European and Latin American destinations — and one-stop flight[s] Japan and the Far East — through[h] state's two major international airp[o]rts. In response to burgeoning busi[ness] travel, two domestic air carriers h[ave] established major hubs in No[rth] Carolina — USAir in Charlotte [and] American Airlines in Raleigh-Durh[am]. The two airports are among the fas[t]-growing in the nation. Thirt[een] regional airports round out the st[ate] air transport network.

"When an airline has a large op[era]tion like we do in Charlotte," say[s] Skofield, chairman of USAir, "it[s a] major attraction for corporati[ons] because of the ease of travel in [and] out." USAir's London routes, origi[nal]ly added to accommodate touri[sm] played a big role in luring ma[ny] British companies, like Gl[axo] Pharmaceutical to North Carol[ina]. The airline's merger with Bri[tish] Airways will strengthen those alre[ady] strong links, opening up the stat[e] 339 destinations in 77 countries [in] January 1994. "It's a win-win situa[tion] for USAir and for North Caroli[na]," says Skofield.

Overland shippers h[ave] nothing but raves for [the] state's 78,000-mile hi[gh]way network, the lar[gest] state-maintained sys[tem] in the nation. The [new] interstate highways t[hat] versing the state pro[vide] easy access to Northe[ast], Mid-Atlantic, and So[uth]east and Midwest m[ar]kets. And a $9.1 bil[lion] capital improveme[nt] program when compl[eted] will bring a four-l[ane] highway with a 10-r[oad]

ABOVE: James B. Hunt, Jr., a visionary governor, has worked closely with the State legislature to enact legislation friendly to business and beneficial for the state economy. TOP RIGHT: The State Capitol building in Raleigh. RIGHT: Port Wilmington, a modern deep-water port, provides easy access to the global marketplace.

North Carolina Is A Great Place To orge A Partnership.

(Just Ask Orville And Wilbur.)

h Carolina has partnerships that start businesses. Partnerships that build industries. And a six-year-old partnership designed to oving in North Carolina. When the state of North Carolina wanted to encourage new business development, they teamed up with lines to create a new hub airport in Raleigh/Durham. Today, American and American Eagle® take care of business with 215 daily flights /Durham to 61 destinations. In fact, the hub itself has become a testament to new business development, creating over 5,000 jobs ; $500 million into the local economy every year. With convenient schedules /Durham, American Airlines can help you forge your new partnerships. For all ll your Travel Agent or American Airlines at **1-800-433-7300**. And we hope the ir partnership will get other businesses moving. Into North Carolina.

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NEW & TRADITIONAL INDUSTRIES SHARE BETTER BUSINESS ENVIRONMENT IN NORTH CAROLINA'S PIEDMONT TRIAD

In a region once dominated by traditional industries, Piedmont Triad North Carolina is emerging as the state's new center of business.

In 1992, North Carolina's Piedmont Triad ranked second in the nation in manufacturing facility relocations and fifth in the U.S. for all facility relocations. More impressively, for the last three years the region has been among the top ten regions nationally in announced relocations and expansions.

How has this 11-county region become North Carolina's newest center for business? Why is such a diversity of firms including Schlegel, Timken, PepsiCo, Levolor, and NationsBank selecting the Piedmont Triad for major new facilities? And, why is manufacturing continuing to be a significant force in the Piedmont Triad's economy when so many regions across the nation have put this vital segment of business on the critical list?

Understanding the answers to these questions may be as simple as understanding why the region's traditional industries such as, textiles, continue to be a major component in the Piedmont Triad's economy.

QUALITY OF WORK

"We made a wise decision to locate here 102 years ago," says Pat Danahy, president and CEO of Cone Mills, the world's largest producer of denim and largest domestic printer of home furnishings fabrics. "Over the years, our employees' quality of work and productivity have enabled us to compete effectively in world markets."

"There's really no better place for us to be," agrees George Henderson, president and COO of Burlington Industries, producer of fabrics for apparel, upholstery and home furnishings. "This region's favorable business climate and strong work ethic drew our founder here in 1923, and those same attributes exist today. We can attract quality employees here, and we draw expertise from a higher education system that considers itself a partner with business."

WEALTH OF TALENT

In the Piedmont Triad alone there are 11 four-year colleges and universities and seven technical community colleges.

That's important to Robert Stec, CEO of M.F. Girbaud, a division of VF Corporation which makes men's and women's apparel. "There's a huge wealth of t at both graduate and undergraduat els," he says.

"Within a two hour driving dist we have colleges and universities v offer programs from clothing and t design and engineering to technical ing and business management. Not do we find qualified, trained peopl our company, but the opportunitie continuing education are a great lur potential employees," adds Stec.

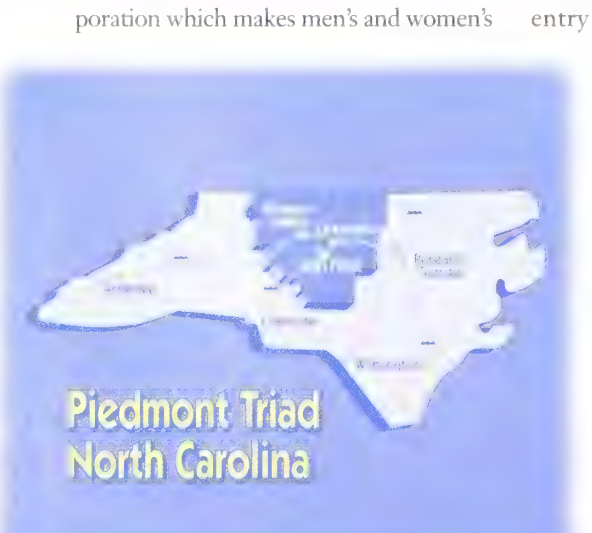
EDUCATION & WORKER TRAININ

In an industry which has shifte high-tech manufacturing at all lev continuing education and worker tr ing are also important issues for Kretzer, CEO of UNIFI, a produc polyester, nylon and spun yarns.

"Our industry today is highly au mated," says Kretzer. "In our ne plants, our entire process is comp controlled and monitored from di entry to final shipment. We nee know we can depend on tra and retraining programs to m us competitive."

But while the textile indu emphasizes the Piedmont Tri work ethic, cooperative educ and training programs as im tant factors for business, mos cite the region's proximity to p ulation centers and custome a key factor.

More than 5.5 million pe live within a two-hour dri the Piedmont Triad, making



state's largest market area.

The Piedmont Triad is home to a le diversity of businesses, from tradi- nal industries such as furniture and iculture to new industry segments uding fiber optics, telecommunica- ıs, medical electronics, health care and ncial services.

N INDUSTRY WELCOME

n an industry as competitive as tex- s, you would expect those companies ady located here would want to keep Piedmont Triad a secret from other ıstries which might compete for the on's labor and resources.

lowever, Chuck Hayes, CEO of lford Mills, maker of knitted fabrics he apparel, furniture, home furnish- and automotive industries, has a risingly friendly point of view.

We in the textile industry welcome industry to our area. It improves the ity of life and builds the tax base," Hayes. "The Piedmont Triad is a t place to live and work. The syner- ı that exists among business, rnment and the community is one is region's greatest assets."

PIEDMONT TRIAD RANKED 11TH IN U.S. AS ENTREPRENEURIAL 'HOT SPOT'

A recent study published by gnetics, Inc., an economic con- ting firm, ranked the Piedmont iad 11th among the 50 largest tro areas for entrepreneurial start- s and job creation. The study ıcluded entrepreneurs are looking outstanding universities, interstate ghways, airport hubs, an advanced ecommunications infrastructure l a high quality of life.

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Contact Dale B. Carroll, Economic Development Supervisor, Carolina Power & Light, P.O. Box 1551 — OHS 12A3, Raleigh, NC 27602. Tel: 1-800-NC-CPL-NC. Fax: (919) 546-4699.

us of 96% of the state's population
a boon to businesses and con-
ers.
nder development in eastern
rth Carolina is the Global
nsPark, a premier industrial com-
that includes thousands of acres of
istrial property and an internation-
rport. The facility will integrate
-In-Time manufacturing systems
air freight and other transport
les and will be supported by
nd-the-world and around-the-
communications.

AT NORTH CAROLINA
NS BY PRO-BUSINESS

le North Carolina is very aggres-
in recruiting business to the
, it is not willing to make unrea-
ble concessions in a bidding war.
er Governor Hunt's leadership,
state is attempting to create a
win situation which pleases busi-
es and brings returns to the state.
example, recent tax incentives
ed by the legislature give busi-
es breaks for jobs created in the
e underdeveloped areas of the
.

ie state is also putting
ace one-stop licens-
or new businesses.
s is a primary con-
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ng to go into busi-
" says Secretary of
Rufus L. Edmisten,
ause it cuts through
ed-tape involved in
ng a new venture
ting."
ie major utility
panies, Duke Power
Carolina Power &

Light, consider themselves to be as much a part of the economic development team as those paid by the state. CP&L, which serves about half of the state's 100 counties, fields Energy Engineering Teams to help incoming and expanding businesses create the most energy-efficient plant operations. The recommendations made by CP&L electrical and mechanical engineers every year represent $19 million in savings for businesses who have used the free service.

Business people are also impressed with the good example the state of North Carolina sets in keeping its financial house in order. It is one of four states to earn an AAA Bond rating for fiscal responsibility. By law, the state budget can carry no deficits. And the state's right-to-work laws have helped create a good overall relationship between management and labor.

MAKING GOOD WORKERS EVEN BETTER

North Carolina has always been known for its superior labor force. Employers can draw from the largest manufacturing workforce in the country; some 500,000 workers are available for recruitment at any given time.

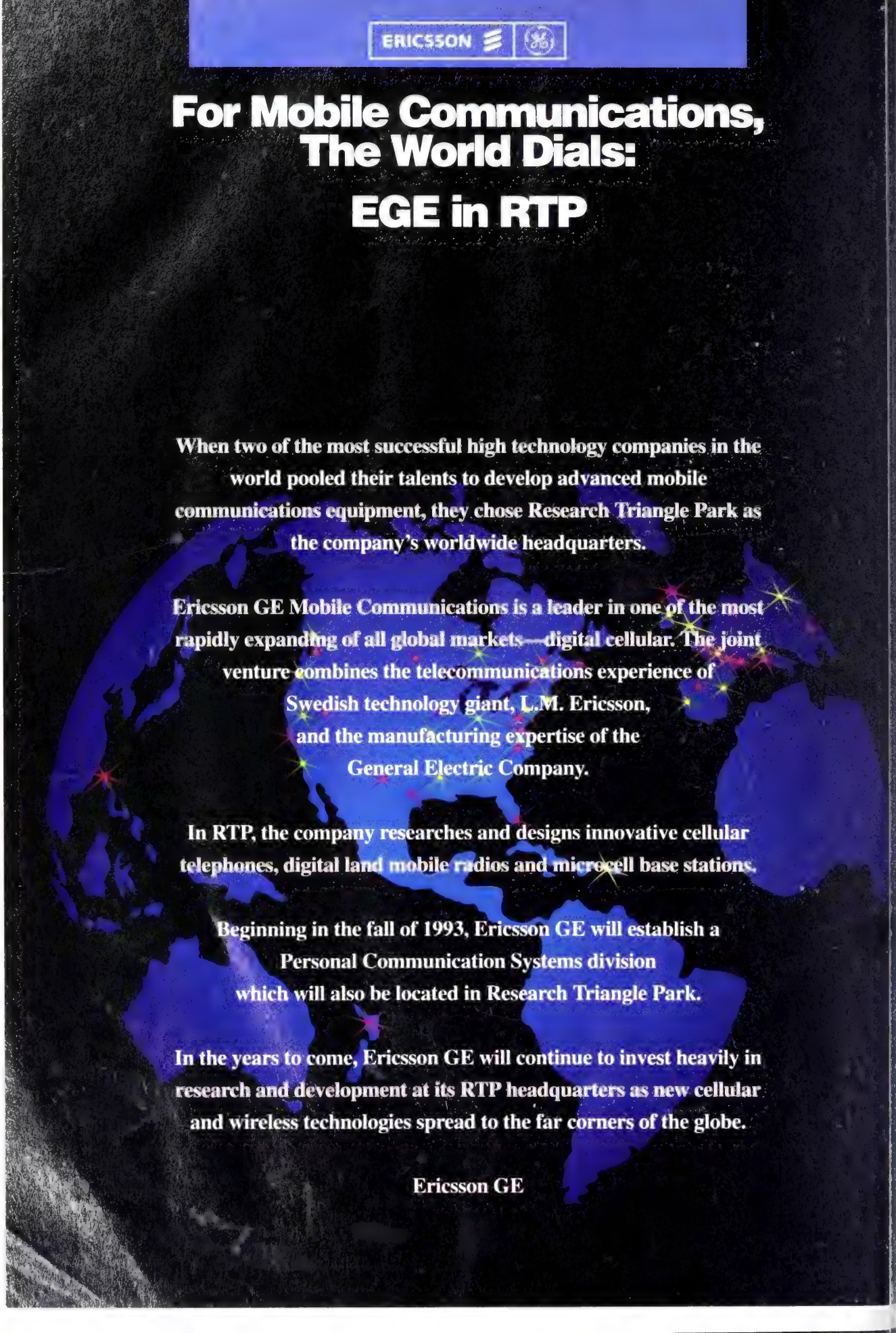
"There's an excellent work ethic here," says Jim Konneker, plant manager of Kelly-Springfield Tire Company in Fayetteville, a subsidiary of Goodyear. "I've worked in a lot of factories in North America. North Carolina workers are as good as any I've worked with."

North Carolina's community college system is widely regarded as the nation's most comprehensive and advanced system of vocational and technical education. Some 99% of the state's population lives with 30 minutes of at least one of the state's 58 community colleges.

The system offers free, customized skills training to new and expanding industries through its Industrial Training Program. Over 1,800 new or expanding businesses over the past 20 years have utilized the program.

One community college went all the way to Italy to help train workers at Amital Spinning Corp., a producer of

LEFT: **The majestic Blue Ridge mountains form the backdrop to one of the world's most spectacular residences, the Biltmore Estate near Asheville.** BOTTOM: **Artist's rendering of North Carolina's Global TransPark, a 20,000-acre industrial-transportation complex geared for the fast-paced global economy.**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Ericsson GE Mobile Communications is a leader in one of the most rapidly expanding of all global markets—digital cellular. The joint venture combines the telecommunications experience of Swedish technology giant, L.M. Ericsson, and the manufacturing expertise of the General Electric Company.
In RTP, the company researches and designs innovative cellular telephones, digital land mobile radios and microcell base stations.
Beginning in the fall of 1993, Ericsson GE will establish a Personal Communication Systems division which will also be located in Research Triangle Park.
In the years to come, Ericsson GE will continue to invest heavily in research and development at its RTP headquarters as new cellular and wireless technologies spread to the far corners of the globe.
Ericsson GE

rylic yarn, in eastern North rolina. Craven Community College t an experienced cameraman over- s to film Italian workers operating ophisticated piece of machinery so North Carolina workers could w the whole process on video. hat's as good an example of the e helping a business as I can think " says Amital President Milton ld.

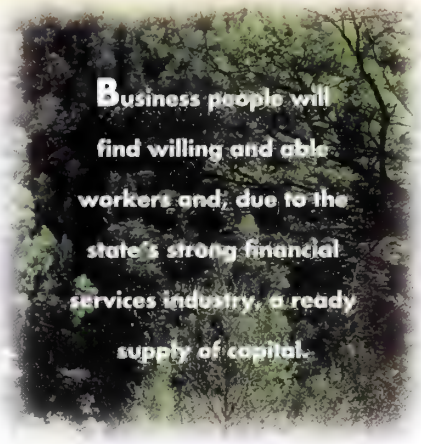
he Governor and the State islature have developed an ambi- is long-term education and train- program designed to produce ily trained workers well into the century.

he plan not only reaches workers very corner of the state through a interactive multi-media training em, but also every pre-school child ugh what's called the Smart Start ative. And the plan comes with a ney-back guarantee. If a high ool graduate cannot perform the n employer requires, the State will inue his education until he or she lo the work.

TH CAROLINA OMES A NCIAL VERHOUSE

ness people will not find willing and able ers in North Caro- ut, due to the state's g financial services stry, a ready supply ital as well.

ading the charge is rlotte-based onsBank, ranked h nationally in total and fast closing on



New York's Chemical Bank for the number three spot. Led by CEO Hugh McColl, the bank has seen explosive growth in the last decade — reaching over $120 billion in assets in the first quarter of 1993. First Union, also headquartered in Charlotte, ranks eighth in total assets. Wachovia, based in nearby Winston-Salem, grew from $1.8 billion in assets in 1969 to $37 billion today.

"The fact that we have this financial power in North Carolina helps our businesses," says Sam R. Sloan, senior vice-president of NationsBank. "We can finance all sized companies."

In addition to financial strength, North Carolina banks are consistently ranked among the best-performing in the nation. "You don't have to worry about your bank being on the 'watch' list," says L.M. Baker, Jr., president and CEO of Wachovia Corporation. "It gives investors confidence."

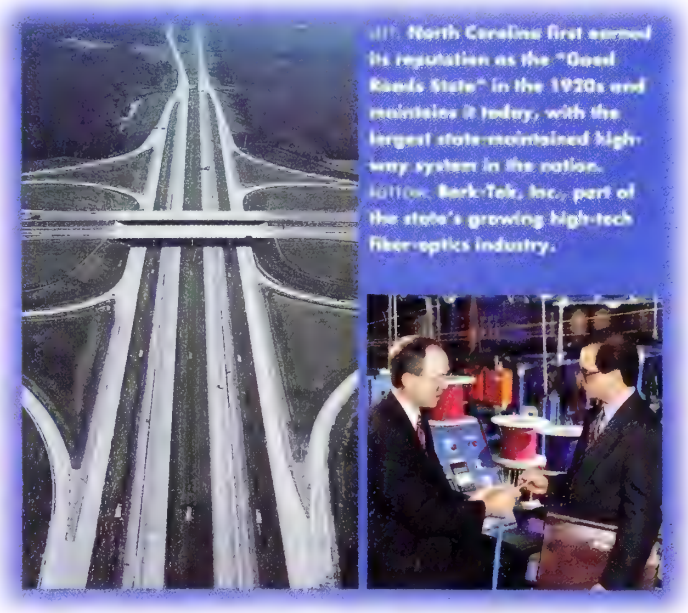
THE DECIDING FACTOR: QUALITY OF LIFE

John Hickman moved his roofing manufacturing company from the upper Midwest to Asheville, N.C. in 1975. "We started out looking at the usual business factors, but I realized the most important question was 'Is this a community where I want to live?' I think quality of life is a bigger priority than most executives want to admit."

For Hickman, quality of life boiled down to an ideal physical climate and what he calls a simpler pace of life. "By simpler I don't mean slower," says Hickman. "There just seems to be less competition for material things. There's a clearer sense of values here."

Geographically, North Carolina is unusually blessed. The combination of a mild, four-season climate and varied terrain afford residents a true variety vacationland, which includes 300 miles of beaches and the highest mountains east of the Mississippi River.

And to top it off, the state has one of the lowest costs of living in the country, insuring that its citizens will have opportunities to enjoy the exemplary life North Carolina has to offer. ☼



Written by Kelsey Menehan.
Design by Parham Santana Inc.

SUMMING UP

Has your company unleashed the spirit of enterprise? Or is it too bureaucratic? Here's how to tell.

BY MARK MAREMONT

It's the fourth quarter. Budget time again. This year has been tough. Our group isn't even close to making budget. Corporate ordered a 10% across-the-board cut in expenses last month. No way I'll get much of a bonus. But Beth's group low-balled their budget this year, and they're maxing out on their bonuses. I hear they're pushing some sales into the first quarter. No sense in doing too well—it just makes things harder next year. Maybe we should try the low-ball routine.

Uh oh, time for the weekly meeting. There's Bill, king of the yes-men, sitting right next to the boss. You can tell he's moving up fast. His new office has six windows, and they put in the oriental rug last week. And poor Jerry is hiding in the corner. Everybody has been avoiding him since that crazy idea of his cratered. We all knew it was a disaster six months before they pulled the plug. He'll be history soon. Just goes to show you've gotta keep your head down. New ideas are fine, but you'd better be damn sure they're going to work.

Whoa! Does this resemble the internal workings of your company? Even slightly? If so, you—or at least your company—haven't gotten today's entre-

FRANS LANTING-MINDEN PICTURES

preneurial message. Far from it: Your company likely exhibits some alarming bureaucratic tendencies. Bureaucracies foster top-down decision-making. They shun risk-takers and reward masters of gamesmanship. They miss opportunities. And no matter how big or successful, they eventually falter. Just look at the sad sagas of IBM, General Motors, Sears, and Westinghouse. "Bureaucracy is an illness, and it's widespread," says Joel M. Stern, managing partner of Stern Stewart & Co., a New York advisory firm that specializes in corporate overhauls. "Fortunately, it's curable."

But how? Struggling to find an answer, many big companies have tried to reinvent themselves. They've chopped management layers. They've decentralized. They've spun off divisions. They've embraced the latest management nostrums, from just-in-time to total quality management. All these partial remedies, though useful, are aimed at a larger goal: Helping lumbering giants think and act like their smaller, more-nimble brethren. In other words, unleashing the spirit of enterprise.

In truly entrepreneurial companies, idea champions are encouraged, not scapegoated

So where does your company fit in? Has it created a truly entrepreneurial environment? Or is it still a bureaucratic rival to the U. S. Post Office? To help you judge, what follows are descriptions of five attributes commonly found in successful entrepreneurial companies. See how your company compares on each. We also urge you to take the quiz on page 257. The results might surprise you.

OPPORTUNITY-SEEKING. By definition, successful entrepreneurs find and exploit markets that others have missed or that new technologies have created.

Cultures at many companies, big and small, unconsciously quash this spirit. They adopt a set of fundamental assumptions and traditional practices that leave big blind spots. Some believe they are so big that pursuing small or ill-defined markets is fruitless. That's one reason why so few big companies spotted the opportunity in cellular telephony back in the early 1980s.

Another problem that bedevils many companies is a culture that implicitly or explicitly punishes failure, rathe than encourages calculated risk-taking. In these compa nies, if a good idea doesn't work out, the manager wh dreamed it up gets ostracized or fired. "You can have a the nice speeches you want about risk-taking," says Ste phen A. Allen III, a professor at Babson College, a man agement school in Wellesley, Mass., with an entrepreneur al focus. "But if you start shooting the champion everybody gets the message that it isn't worthwhile."

In truly entrepreneurial companies, by contrast, ide champions are encouraged, not scapegoated—unless the flop too often. Some big companies have learned the lesso Motorola Inc. has remad itself in less than decade from a besieged laggard to a world leade Its culture prizes innova tion. "It's the job of ever [Motorola] manager t obsolete their own proc uct before somebody els does," says Cyrus Freidheim Jr., vice-chai man of Booz Allen & Hamilton Inc. and a long time Motorola watcher.

OWNER MENTALITY Entrepreneurs are own ers. They reap the re wards if they're success ful and suffer th consequences if not. Tha provides a unique moti vation, both economi and psychological.

It's impossible to pre cisely duplicate tha mind-set in a large corpo ration, despite efforts a "intrapreneurship," practice that encourage small-scale startups with in a larger corporation. "The problem with intrapreneur ship is that if it doesn't work out, the company is still there, says management guru David A. Nadler of Delta Consult ing Group Inc. in New York, an adviser to American Tele phone & Telegraph Co., Corning Inc., and others. "It's no the same motivation as when the creditors are at the doo or the motivation that you can radically change your life i you really succeed."

Even so, many companies have compensation structure that actively discourage entrepreneurial thinking. The base pay scales on such factors as the size of a manager staff. Not surprisingly, managers try to maximize the peopl

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and assets under their control—the antithesis of what's good for the company. Bonuses, when given, are often too small or too poorly designed to counteract this effect.

Many consultants recommend an overhaul of compensation systems to help managers think more like owners. The first step is to divide a company into discrete units, each with its own bottom line. By mimicking a small-company setup, the scheme allows managers to control a complete process from start to end and gives employees a cohesive unit to identify with. Many big corporations, such as General Electric Co., have carved themselves up in this fashion in recent years.

The challenge is to knit these stand-alone units together into a cohesive whole, able to share knowledge and skills. "You need to create a sense of enterprise but not lose the benefits of scale and leverage," says Nadler. Finding the right balance is precisely the conundrum facing new IBM CEO Louis V. Gerstner Jr. His predecessor wanted to split Big Blue into smaller units, even spinning some off. But Gerstner worries that too much decentralization might dilute IBM's key advantages: size, global scope, and technological might.

How to make managers think like owners? One step is to break up a company into small units

Once managers have control of their units, pay should rise and fall with that unit's performance. Many consultants recommend that variable pay should average 50% of total compensation for the top several layers. What's more, companies should scrap the common practice of capping bonuses. It just induces managers who are doing well to shift performance into the next year. And don't move the goalposts in midyear when an executive's bonus is looking too large. That discourages outstanding performance.

Just as important, bonuses need to be determined as objectively as possible. "Typically, a subordinate negotiates with a supervisor on a budget," says Stern. "If he beats the budget, he gets a bonus. There's a tremendous incentive to engage in low-balling." His firm has been pushing an objective measurement method called Economic Value Added (EVA), which calculates what Stern calls "true economic profit," or earnings after subtracting the cost of capital. It has been adopted by numerous companies, including AT&T, Quaker Oats, Scott Paper, and Cummins Engine.

Companies that make full use of incentive-based pay should be prepared to slay a few sacred cows: First, the idea that similarly ranked execs should earn about the same pay. And second, that line managers shouldn't ever outearn top corporate executives. At Tyco Laboratories Inc., a New Hampshire-based conglomerate, line managers earn a smallish base salary plus a sliding percentage of the unit's profits. A half-dozen line executives each took home more than $1 million last year. "Our incentive system is designed to allow people to respond like entrepreneurs, while having the backing of a big company," says Tyco Chairman L. Dennis Kozlowski.

FLEXIBILITY. Effective entrepreneurial companies seize opportunities quickly and are equally quick to abandon losing initiatives. They encourage managers to think and act on their own.

Many companies have become too hierarchical. At IBM, for example, Gerstner found that some dealings required 18 signatures. And at many companies, rafts of MBAs in corporate planning review decisions made by line managers. No wonder it can take months to get anything done.

The first step is to scrap the hierarchy. Many companies have cut white-collar work forces and slashed management layers. But just cutting layers without changing behavior patterns could prove counterproductive, by overburdening remaining managers. Instead, consultants say, decision-making should be pushed downward, and corporate oversight kept to a minimum.

Good entrepreneurial companies have no corporate planners at all. That function is performed by line managers. In those companies, a sudden downdraft won't result in orders from on high to freeze hiring or slash expenses. In

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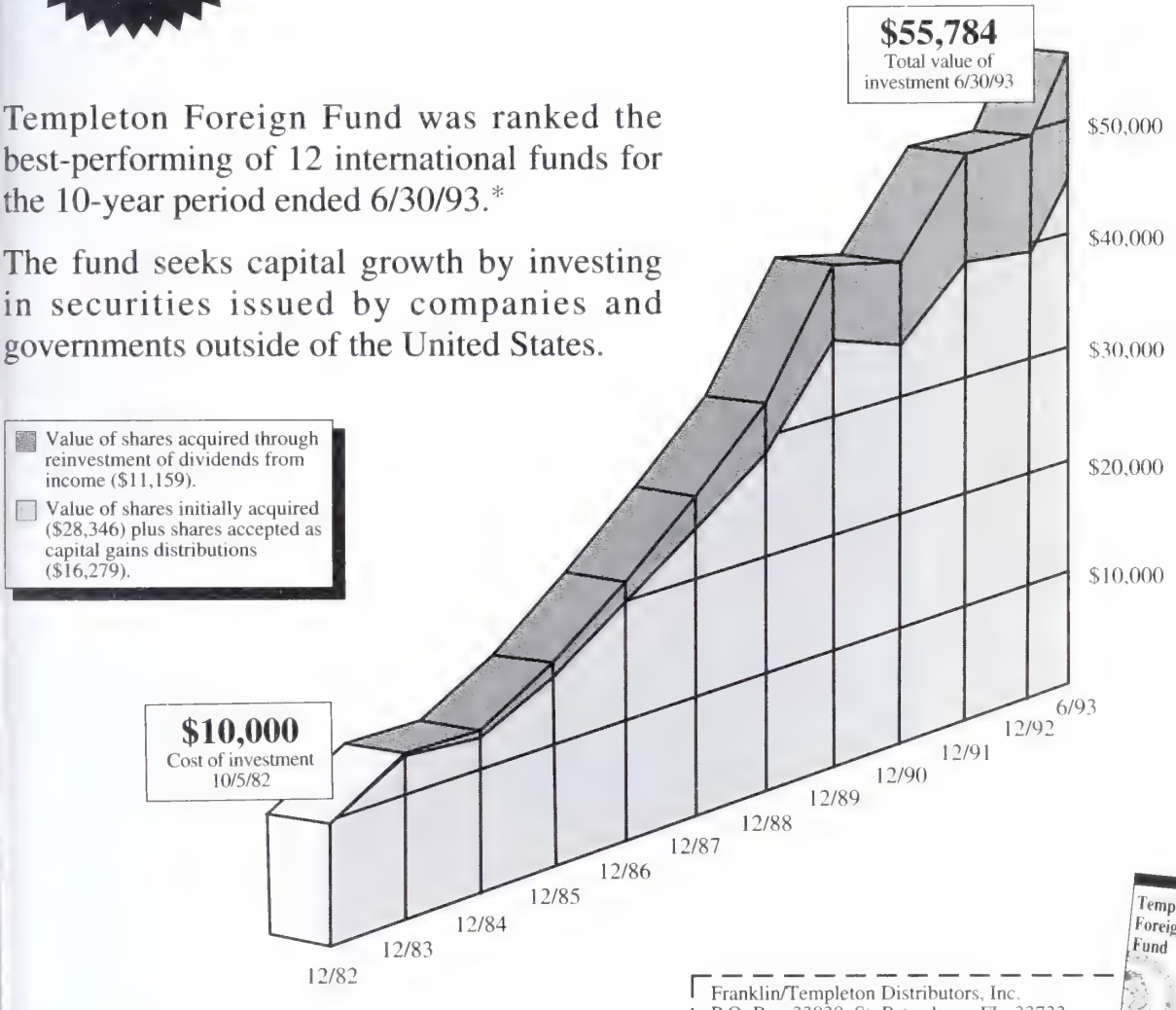

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stead, managers are given broad goals and granted discretion to carry them out.

Another important hallmark of flexibility is the willingness to change direction or even abandon initiatives. In bureaucratic companies, winning internal approval for a new venture is often such an arduous process that nobody wants to admit failure or change course. By contrast, Edward Roberts of Massachusetts Institute of Technology's Sloan School found that successful entrepreneurs are so eager to adapt to market conditions that their companies often follow a radically different course from the one mapped out in their original business plan.

TEAMWORK. At entrepreneurial companies, you'll find that employees voluntarily work far into the evening and get to work at dawn. That's a far cry from the all-too-common experience in big companies, where a cannon shot through the office at 5:01 p.m. wouldn't harm a soul.

The culture at many big companies discourages teamwork. People are judged not by their effort or the value they create, but on such factors as what perks they've accumulated. "If things like the size of someone's office become the currency for gaining respect and power within the company, it's headed for trouble," says Jeffry A. Timmons, a professor of new ventures at Harvard business school.

Good companies have a minimum of hierarchy. Instead, managers are given broad goals—and power

At the best entrepreneurial companies, by contrast, status follows performance and faithfulness to the values and culture. The rewards of success are value-enhancing, such as stock options. Employees feel their actions make a difference. As they work to achieve those goals, many companies are trying to extend the concepts of teamwork and ownership to the lowest levels. Scott Paper Co. has put all 6,000 salaried workers on a bonus plan related to EVA. They are sent detailed reviews, usually monthly, of their unit's performance against its EVA target, allowing them to calculate their bonuses.

The importance of good morale can't be underestimated. At Southwest Airlines, some attribute high productivity to Chief Executive Herbert D. Kelleher's pranksterism, which instills a fun, familial atmosphere. He has dressed as Elvis and the Easter Bunny to mix with passengers on planes. He urges managers to talk to customers. "If you think there's a problem, go out and experience it," he says. "Don't sit around the office and discuss it for three months."

Successful entrepreneurial companies also foster what consultants like to call a "perpetual learning culture." Employees are encouraged to broaden their skills in any way possible. Companies spend heavily on training, even going so far as to pay for any employee education—all expense, work-related or not.

RESOURCE CONTROL. Entrepreneurs typically start with little money. A study of high-tech startups by MIT's Roberts concluded that 78% began with less than $50,000. Many big companies spend that just preparing a presentation on a new project. Indeed, some won't even consider a new venture unless it requires $5 million or more in capital. "Entrepreneurs think exactly the opposite," says Harvard's Timmons. "They say: 'What's the absolute minimum we can spend to do something?'"

And smart entrepreneurs focus on controlling resources instead of owning them, says Timmons. A startup, for example, might save on capital by contracting out production, rather than building its own assembly line. A decade ago, many big companies wouldn't have dreamed of doing that. But many companies have abandoned this ownership mentality, as evidenced by the trend toward outsourcing and the growing popularity of alliances.

Still, says Timmons, many companies are handicapped by their traditional budgeting process. Corporate planners set an overall budget for the company. Each division then submits its budget and capital needs. Several rounds of negotiation follow. The unintended result: Resources are allocated on the basis of a rigid formula, either adding or subtracting from the prior year's figures.

The best entrepreneurial companies start with a fresh

Hewlett-Packard's client/server solution helps Chesebrough-Pond's listen to customers more closely. This gives their marketing a fresh new complexion.

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Director of Management Information
Chesebrough-Pond's USA

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te to work from every year. Top executives examine each vision's prospects and allocate resources to reap the most rewarding return. "Senior managers should act more like venture capitalists than like operators," says Delta Consulting Group's Nadler.

Do any companies measure up to all of these entrepreneurial ideals? Probably very few. And it's unrealistic to expect that any organization with more than 500 employees can avoid bureaucracy. However, there are plenty of lessons every company, whether large or small, can learn from the most successful entrepreneurs. Has your company learned them yet? □

HOW ENTREPRENEURIAL IS YOUR COMPANY?

The essence of an entrepreneurial company has little to do with size. The secret lies more in the company's mind-set than in its balance sheet, cash flow, technology, or other factors. How a company prepares for, engages in, and pursues its battles for the marketplace is what counts most.

The following quiz was prepared by Professor Jeffry A. Timmons of Babson College and Harvard business school, where he is the MBA Class of 1954 Professor of New Ventures. The quiz yields clues to the complicated entrepreneurial genetic code of management philosophy, strategies, practices, and culture. Except for statement #2, note your response as follows: strongly agree (SA), inclined to agree (IA), inclined to disagree (ID), and strongly disagree (SD). While in some cases the "entrepreneurial" response may seem obvious, the only way to get an honest appraisal of your company is to select the most accurate response that most closely approximates your situation. For scoring, see page 278.

1 The main things that determine how people get ahead at my company are the size of my budget and the number of people who report to me.

2 Our goal is to generate the following proportion of sales from products introduced in the past five years: a) 50% or more; b) 40%–50%; c) 20%–30%; d) 10%–20%; e) less than 10%; f) no goal.

3 The best new product or service ideas we have come from within the company, mainly from R&D or marketing research people.

4 Our company is so big now that it isn't worth our while getting into a small or poorly defined market. We aren't very interested in new projects that require a commitment of less then $5 million in capital.

5 Two of our top people want to launch a new business that they would own and manage. It has a good chance of succeeding. They want our company to provide financial and strategic support—even a minority investment. They also want salaries and stock options pegged to the new business' results. Their proposal would stand a good chance of being approved.

6 A manager wants to leave to start her own business. We would do whatever we can to prevent her departure, including strict enforcement of a noncompete agreement.

7 A manager at my company has had to shut down a business for which he had been an enthusiastic champion. The losses are not huge by company standards. The manager can count on the silent treatment from colleagues and an unappealing new assignment.

8 If I were running my company, I would immediately begin to change many of its policies and procedures, including budgeting, hiring, and rewarding people.

9 At my company, people at every level, down to the production line and maintenance, have a clear understanding of how their jobs and daily decisions affect the company's financial performance.

10 My company is highly committed to the strategic process. In deciding what new businesses to get into, we involve the board and top management from the beginning to make sure we have it right before we launch a venture.

11 We don't give up easily. Once we commit our company to a strategy, we allocate a lot of capital and people and pursue it with a vengeance.

12 Our strategic process begins by identifying opportunities. Then we figure out which ones offer the most sustainable growth and fit with whom we are and what we want to become. We abandon initiatives fairly quickly if we aren't getting the results we want.

13 Because of a strategic shift, our company has decided to sell a small but successful division for a hefty profit. The top managers who have been running the division for years have decided to stay with our company. We would reward their effort by paying them a bonus equivalent to 10% of the gain, even if that amounted to millions of dollars.

14 Pursuing new business opportunities is a priority around here. But we're so busy with day-to-day operations that we usually think about new ventures only in our spare time or in occasional idea meetings.

15 My company has what could be called a perpetual learning culture. We are so committed that we will go to the extreme of reimbursing people for any educational expenses, job-related or not.

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TODAY'S UP-AND-COMERS, TOMORROW'S HEAVYWEIGHTS

What does it take to grow fast? The answer seems simple: Don't settle for anything less. That's one thing the midsize companies in this ranking have in common. But a careful analysis shows there are other shared traits, too.

THE PASSWORD IS 'RISK'

BY PAUL M. ENG

Perhaps the surest evidence of entrepreneurial zeal is rapid growth. After all, the point of taking risks, seizing opportunities, and hatching ideas is to win new customers and create businesses. And while plenty of profitable enterprises do quite nicely, thank you, by sticking to a market niche or by consistently beating the competition in a mature industry, strong growth clearly marks a company as one that won't settle for the status quo.

Staples Inc. makes the point. It has latched onto the concept of a booming warehouse store: spartan presentation, high volume, and low pricing. The Northeastern chain of 200 stores has distinguished itself by focusing on office supplies, from manila folders to computer software. The result: average annual sales growth of 41.2% over the past three years and sales of $995.1 million in the past 12 months. Cisco Systems Inc., which specializes in connecting far-flung corporate computer network systems, and hundreds of other companies could make the point just as well.

To identify such standouts among the nation's up-and-coming companies, BUSINESS WEEK searched out fast-movers closing in on the $1 billion sales level—a sign that a company has become a force to be reckoned with. We started by selecting companies that have sales of less than $1 billion and more than $150 million, the top level for our annual Hot Growth Company ranking. We picked such candidates from the data base of 7,533 publicly traded companies kept by Standard & Poor's Compustat Services, a division of McGraw-Hill Inc., publisher of BUSINESS WEEK.

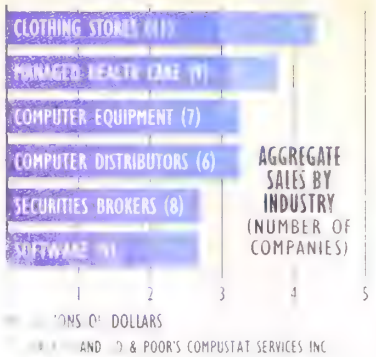
We kept only the companies that showed a profit in the most recent 12 months, then selected the ones that have shown a sales increase of at least 10% annually, on average, over the past three years and a 10% or greater increase in the most recent 12 months. Finally, to spot the companies bidding to break into the powerhouse category, we used a ranking formula that effectively gave a bigger company with, say, 20% growth a higher score than a smaller company with the same growth.

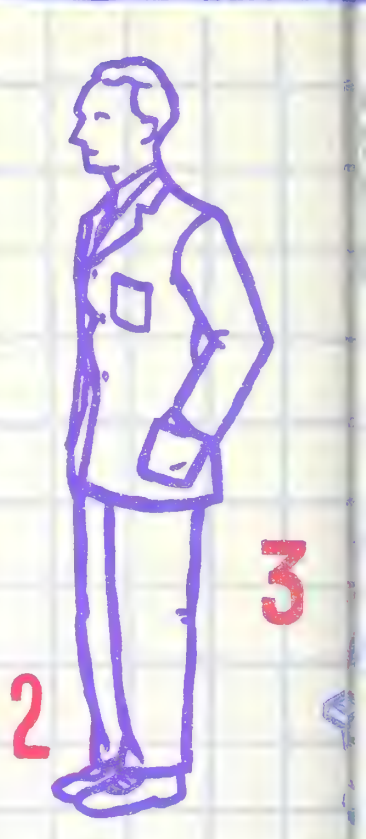
Breaking down the companies by industry, retail clothing was by far the hottest growth sector. Discount and value-priced chains, such as Clothestime Inc., boomed in a weak economy where consumers are wary of spending too much.

Managed health-care organizations, our second-largest growth industry, benefited from the push to find a solution to runaway health-care costs. With only 18% of all American workers now serviced by health maintenance organizations (HMOs), there's tremendous opportunity for growth, says Eleanor H. Kerns, an analyst with Alex. Brown & Sons in Boston.

Computer software companies, on the other hand, grew for varied reasons. The recent price wars in the personal-computer market have fueled demand for software. And as corporate customers

WHERE GROWTH COMPANIES FLOURISH





SIZING UP THE FAST-

...PROFITS...	MILLION
BHC COMMUNICATIONS	
CISCO SYSTEMS	
COUNTRYWIDE CREDIT	
CHRIS-CRAFT INDUSTRIES	
ENRON OIL & GAS	
INTERNATIONAL GAME TECHNOLOGY	
DESTEC ENERGY	
SERVICE CORP. INTERNATIONAL	
CABLETRON SYSTEMS	
GREEN TREE FINANCIAL	

rely more on PC-based networks, companies such as Informix Corp. and Sybase Inc., makers of so-called relational database programs for such setups, will grow.

Meanwhile, entertainment software companies, such as Electronic Arts Inc., are being driven by the demand for new and innovative games. Lawrence F. Probst III, president and chief executive officer, says to make Electronic Arts the "best interactive-software company in the world," the company will spend approximately 14% of its net revenue to develop compact disk-based games for such advanced systems as 3DO Co.'s home-entertainment unit.

Hot young companies with new products or business concepts are hardly the only top performers. Acquisitions are a well-worn path to fast growth. Adams Resources & Energy Inc., our chart-topper, grew more than fourfold in size last year with the acquisition of Gulfmark Energy Inc. TakeCare Inc.'s recent acquisition in Colorado will not only make it the largest health maintenance organization in that state but also push it over the $1 billion mark, speculates President Judd Jessup. "We've shown we can do acquisitions," he says, adding that TakeCare will continue to seek other HMOs to add to its network.

But as these companies expand their might and presence, growth will be more difficult to come by. For example, sales at Giddings & Lewis Inc., a fast grower in recent years, have slipped as orders for its big, customized machine tools have slowed. It will continue to stress product development, which, along with the acquisition of rival Cross & Trecker Corp., turned G&L into the largest machine-tool company in the U. S. But to experience really significant growth, says Chief Executive Joseph R. Coppola, G&L will have to make more acquisitions—and it might consider manufacturing companies outside of the factory-equipment business.

Even Staples, just $5 million shy of the $1 billion mark, faces some obstacles. Competitors such as Office Depot Inc. and Costco Wholesale Corp. are forcing margins down and slowly taking over choice retail locations. To continue its aggressive expansion plans, Staples is entering joint ventures to open superstores in Canada and Europe. And while Staples may yet find that the superstore concept isn't as popular outside of the U. S., taking risks is what got it where it is.

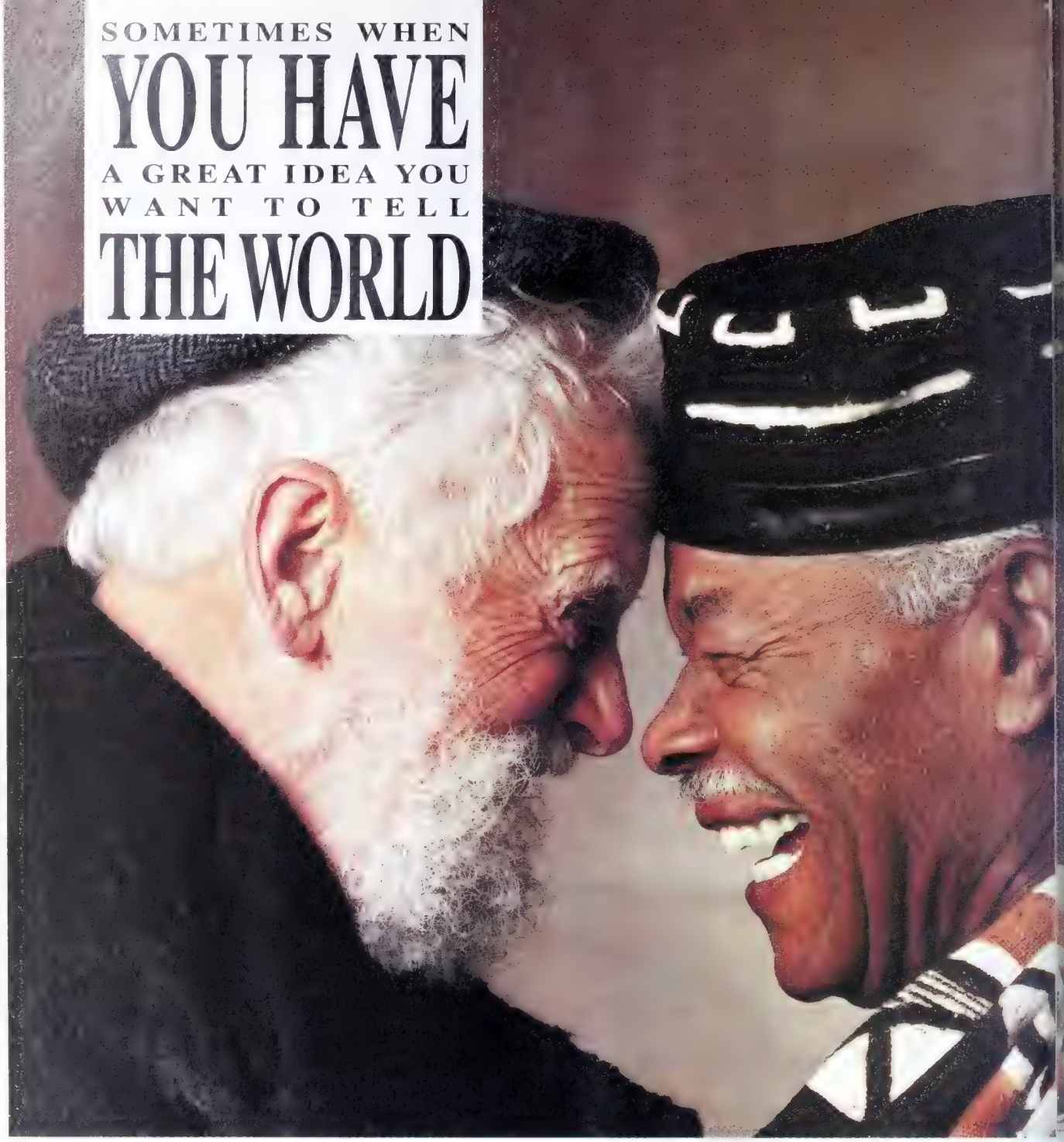
With Peter Burrows in Dallas, Zachary Schiller in Cleveland, and Geoff Smith in Boston

OUTS IN...

...S GROWTH...	PERCENT CHANGE FROM ONE YEAR AGO
	459.4%
ER	455.3
	384.6
	367.7
ENTERPRISES	312.6
	275.2
OMMUNICATIONS	267.5
OTTLING	250.7
INOLOGY	231.4
ICATIONS GROUP	227.7

...AND RETURN ON EQUITY	PERCENT
ELECTROCOM AUTOMATION	55.2%
HOLLY	51.8
MARVEL ENTERTAINMENT GROUP	47.5
AMERICAN POWER CONVERSION	37.4
CUC INTERNATIONAL	37.3
CISCO SYSTEMS	36.2
INTERNATIONAL GAME TECHNOLOGY	35.5
INFORMIX	35.0
ROADMASTER INDUSTRIES	33.6
SOUTHERN ELECTRONICS	32.7

OR THE MOST RECENT 12 MONTHS DATA: STANDARD & POOR'S COMPUSTAT SERVICES



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250 COMPANIES ON THE MOVE

This list of emerging growth companies is designed to pick up smaller companies that could soon be major forces in their industries–or are already. To be included, a company must have sales of over $150 million and less than $1 billion, must be profitable, and must have a current stock price of $2 or more. In addition, each company must show a 10% or greater increase in sales for both the latest 12 months and over the last three years. Companies must have sales of $50 million or more in the first year used in the three-year growth-rate calculation.

SCOREBOARD EDITOR: FRED F. JESPERSEN

COMPANY	12-MONTH SALES $ MIL	CHANGE FROM 1992 %	3-YEAR AVERAGE INCREASE %	12-MONTH PROFITS $ MIL.	CHANGE FROM 1992 %	12-MONTH PROFIT MARGIN 1993	RETURN ON COMMON EQUITY %	STOCK DATA: HIGH/LOW PRICE	STOCK DATA: RECENT PRICE	STOCK DATA: P-E RATIO	INDUSTRY DESCRIPTION
ADAMS RESOURCES & ENERGY	733.3	191.6	105.8	0.7	–69.2	0.1	7.1	7/4	5	31	Oil Mktg./Transport
CISCO SYSTEMS	649.0	91.1	107.7	172.0	103.8	26.5	36.2	59/23	47	36	Computer Equipment
READ-RITE	532.3	62.2	95.6	52.1	32.1	9.8	13.6	32/9	12	8	Electronic Components
LIBERTY MEDIA	565.5	318.5	90.2	2.5	–93.2	0.4	NM	27/6	25	NM	Cable Programming
FUTURE NOW	530.4	180.7	90.8	7.5	93.0	1.4	12.2	15/8	13	10	Computer Distributor
CONTINENTAL MEDICAL	901.4	32.2	49.1	22.7	–16.1	2.5	8.8	21/7	8	13	Hospitals
STAPLES	995.1	33.6	41.2	14.0	459.4	1.4	5.6	42/23	32	54	Office Products Stores
COUNTRYWIDE CREDIT INDS.	737.2	83.1	56.5	154.4	92.8	20.9	20.5	35/21	30	11	Mortgage Banking
TAKECARE	795.1	105.9	48.8	30.8	49.8	3.9	19.4	50/26	44	16	Managed Health Care
SOLECTRON	678.5	79.3	49.5	23.5	73.9	3.5	9.4	50/22	43	34	Circuit Boards

GLOSSARY

RANKING: We prepared two indexes for each company. One index, based on size, stated sales as a percent of the average for all companies. The other index was based on sales growth. The sum of the indexes was the final ranking.

SALES: The most recent 12 months of sales, with three-year growth ratio calculated using the least-squares method.

PROFITS: The most recent 12 months of income from continuing operations, excluding extraordinary items.

MARGINS: Profits as a percentage of sales.

RETURN ON EQUITY: Net income available for common stockholders for most recent fiscal year, divided by common equity.

HIGH/LOW PRICE: Trading range for company's common stock, September, 1992, to September, 1993.

STOCK PRICE: Price for a single share of a company's most widely traded issue of common stock as of the close of trading on Sept. 3, 1993.

P-E RATIO: Price-earnings ratio based on most recent 12 months' earnings and Sept. 3 stock price.

NM = not meaningful

DATA: STANDARD & POOR'S COMPUSTAT SERVICES, A DIVISION OF McGRAW-HILL, INC.

ALPHABETICAL LIST OF COMPANIES ON PAGE 277

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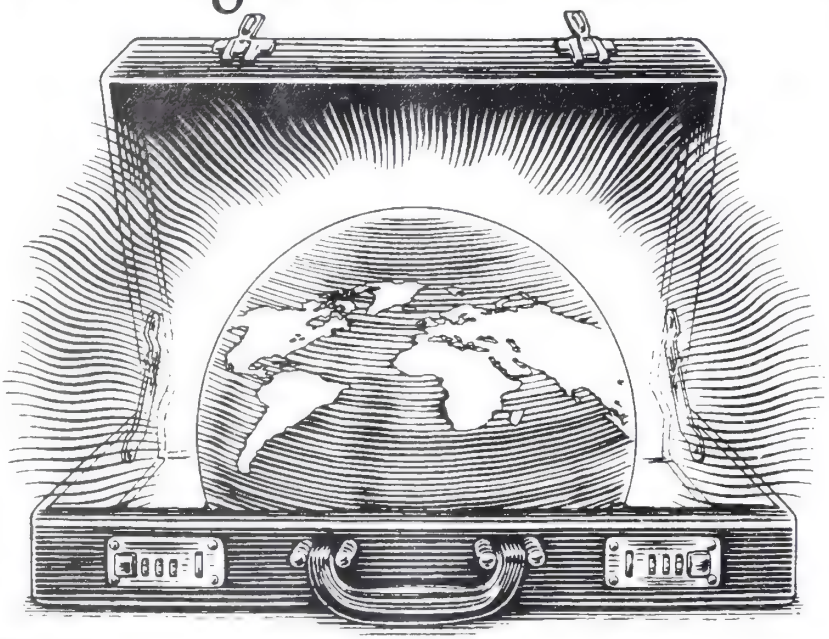

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250 COMPANIES ON THE MOVE

RK	COMPANY	12-MONTH SALES $ MIL.	CHANGE FROM 1992 %	3-YEAR AVERAGE INCREASE %	12-MONTH PROFITS $ MIL.	CHANGE FROM 1992 %	12-MONTH PROFIT MARGIN 1993	RETURN ON COMMON EQUITY %	STOCK DATA HIGH/LOW PRICE	RECENT PRICE	P-E RATIO	INDUSTRY DESCRIPTION
1	SAFEGUARD SCIENTIFICS	955.7	21.6	28.9	10.6	6.4	1.1	10.0	24/12	22	10	Computer Distributor
2	WESTERN GAS RESOURCES	716.0	57.3	43.4	43.5	60.5	6.1	13.3	44/24	43	28	Gas Transmission
3	MARVEL ENTERTAINMENT GROUP	351.3	149.4	65.9	45.0	82.4	12.8	47.5	44/15	44	48	Comic Books
4	COMPUCOM SYSTEMS	819.9	24.3	33.8	9.3	61.5	1.1	21.2	5/1	4	13	Computer Distributor
5	NOVACARE	539.1	40.0	51.1	46.8	24.8	8.7	17.6	24/11	13	14	Rehabilitation Service
6	SYNOPTICS COMMUNICATIONS	571.4	109.1	48.9	76.8	267.5	13.4	32.1	43/12	27	24	Computer Equipment
7	VALUE HEALTH	377.4	81.9	58.7	19.9	80.6	5.3	7.8	41/22	34	45	Managed Health Care
8	J.B. HUNT TRANSPORT SERVICES	994.4	21.4	20.2	39.0	14.0	3.9	12.0	27/17	22	21	Trucking
9	MID ATLANTIC MEDICAL SVCS.	622.9	26.0	42.7	16.8	53.1	2.7	32.1	29/12	25	22	Managed Health Care
10	IVAX	521.1	60.9	48.1	69.1	367.7	13.3	20.5	37/19	24	24	Pharmaceuticals
11	APPLIED MATERIALS	963.1	37.3	19.1	78.2	138.5	8.1	14.4	75/23	71	37	Special Machinery
12	GIDDINGS & LEWIS	608.5	23.3	40.5	41.6	51.3	6.8	10.1	30/16	24	18	Industrial Automation
13	DOLLAR GENERAL	992.6	18.4	15.7	40.5	49.3	4.1	19.6	34/17	33	28	Variety Stores
14	GENZYME	247.9	42.6	61.1	40.5	NM	16.3	11.6	47/28	33	21	Biotechnology
15	EMC	505.0	87.8	44.1	60.4	211.0	12.0	22.0	35/5	33	50	Data Storage Devices
16	HEALTHSOURCE	234.7	95.2	60.5	20.6	43.3	8.8	13.7	48/20	44	26	Managed Health Care
17	CONSOLIDATED STORES	978.7	17.6	13.7	36.5	34.0	3.7	17.3	20/12	17	22	Variety Stores
18	LUKENS	947.0	62.6	14.1	31.9	166.3	3.4	11.1	53/32	45	22	Steel
19	GRAND VALLEY GAS	324.7	64.7	52.8	3.2	–2.1	1.0	19.4	11/5	7	14	Gas Mktg./Storage
20	PARKER & PARSLEY PETROLEUM	265.5	44.0	55.7	42.1	147.2	15.8	12.5	34/13	34	22	Oil/Gas Production
21	VISHAY INTERTECHNOLOGY	774.6	41.4	22.9	37.9	66.1	4.9	10.5	38/24	35	19	Electronic Components
22	FIDELITY NATIONAL FINANCIAL	477.7	75.9	40.8	20.2	99.6	4.2	30.6	33/13	33	15	Title Insurance
23	VIKING OFFICE PRODUCTS	449.7	40.5	41.7	17.2	33.8	3.8	16.2	37/18	35	41	Mail Order Supplies
24	CML GROUP	612.2	32.0	31.5	56.3	62.3	9.2	31.7	29/14	25	23	Fitness Stores
25	STEWART & STEVENSON SVCS.	908.7	20.5	12.7	50.5	30.3	5.6	16.0	50/26	49	32	Engines & Turbines
26	TEJAS GAS	603.3	33.5	31.7	16.7	68.8	2.8	8.2	60/20	60	43	Gas Transmission
27	PERRIGO	570.8	39.3	33.5	44.6	56.3	7.8	19.0	30/15	30	52	Pharmaceuticals
28	KANSAS CITY SOUTHERN INDS.	834.8	24.4	17.0	77.0	36.5	9.2	15.5	43/19	39	23	Railroads
29	SYBASE	326.9	58.7	48.3	31.9	136.1	9.7	21.9	78/29	61	48	Software
30	ELECTROCOM AUTOMATION	429.6	11.7	41.6	26.8	–7.6	6.2	55.2	24/12	16	16	Mail Processing Systems
31	MERRY-GO-ROUND ENTS.	892.0	15.1	12.7	32.9	55.8	3.7	13.8	18/8	8	13	Clothing Stores
32	ORANGE & ROCKLAND UTILITIES	899.3	13.2	11.5	48.4	10.7	5.4	12.4	48/39	46	14	Gas/Electric Utility
33	TNT FREIGHTWAYS	860.8	22.5	13.5	23.3	30.7	2.7	13.9	34/15	32	23	Trucking
34	HEALTHSOUTH REHABILITATION	446.5	41.0	39.2	35.6	40.0	8.0	11.9	27/12	15	13	Rehabilitation Service
35	MOLEX	859.3	10.7	12.7	74.7	10.7	8.7	9.9	36/26	35	30	Electronic Connectors
36	SENSORMATIC ELECTRONICS	487.3	57.3	35.9	54.1	71.6	11.1	12.4	46/23	43	30	Security Devices
37	CABLETRON SYSTEMS	461.7	45.2	37.5	92.1	45.3	19.9	29.1	119/57	105	32	Computer Equipment
38	EQUITABLE RESOURCES	883.4	19.3	11.1	69.9	4.9	7.9	11.8	44/30	42	19	Gas Transmission
39	MICRON TECHNOLOGY	657.5	32.9	24.8	44.1	231.4	6.7	7.8	57/14	52	48	Semiconductors
40	SERVICE CORP. INTERNATIONAL	826.1	14.5	14.3	95.1	14.0	11.5	11.5	25/17	24	20	Funeral Services

ALPHABETICAL LIST OF COMPANIES ON PAGE 277

250 COMPANIES ON THE MOVE

RANK	COMPANY	12-MONTH SALES $ MIL	CHANGE FROM 1992 %	3-YEAR AVERAGE INCREASE %	12-MONTH PROFITS $ MIL	CHANGE FROM 1992 %	12-MONTH PROFIT MARGIN %	RETURN ON COMMON EQUITY %	STOCK DATA HIGH/LOW PRICE	RECENT PRICE	P-E RATIO	INDUSTRY DESCRIPTION
51	ELECTRONIC ARTS	327.8	66.1	45.1	33.4	55.6	10.2	27.4	39/13	35	50	Software
52	MICRO WAREHOUSE	350.2	68.3	43.7	9.4	63.8	2.7	14.4	28/19	23	25	Mail Order Computers
53	OXFORD HEALTH PLANS	210.2	79.2	52.0	10.8	93.9	5.1	15.6	80/29	73	55	Managed Health Care
54	AES	483.1	35.9	34.7	74.8	56.3	15.5	25.9	32/20	32	20	Cogeneration
55	STANDARD MICROSYSTEMS	259.7	49.3	47.9	16.9	193.4	6.5	13.5	27/13	19	14	Computer Equipment
56	BRINKER INTERNATIONAL	652.9	25.7	23.3	48.9	37.0	7.5	14.6	39/22	39	38	Restaurants
57	AMERICAN POWER CONVERSION	198.4	66.6	51.4	36.2	78.0	18.3	37.4	48/16	45	56	Elect. Power Supplies
58	ADAPTEC	328.4	72.9	42.4	52.0	122.9	15.8	23.1	33/19	32	16	Computer Equipment
59	THOR INDUSTRIES	388.5	66.2	38.6	10.5	58.2	2.7	13.7	29/12	17	14	Motor Homes
60	SMART & FINAL	802.4	14.7	12.7	15.2	20.0	1.9	15.0	20/13	15	20	Grocery Stores
61	NATIONAL HEALTH LABS.	760.7	14.3	15.3	46.3	–59.2	6.1	21.8	25/13	17	32	Medical Laboratories
62	NORTH AMERICAN MORTGAGE	260.9	53.7	46.3	39.6	54.0	15.2	28.3	30/13	28	10	Mortgage Banking
63	HUFFY	777.9	14.1	13.5	13.1	–23.3	1.7	10.3	20/12	20	19	Bicycles/Leisure
64	VENCOR	244.1	40.4	46.4	19.8	46.5	8.1	12.7	36/21	22	20	Hospitals
65	COCA-COLA BOTTLING CONS.	682.5	21.9	18.4	8.8	250.7	1.3	28.1	31/15	31	40	Soft Drink Bottler
66	BIOGEN	156.7	142.9	51.0	53.7	NM	34.3	17.6	50/23	35	22	Biotechnology
67	CUC INTERNATIONAL	771.0	16.3	12.5	65.4	128.2	8.5	37.3	35/13	35	58	Business Services
68	GTECH HOLDINGS	534.8	36.3	26.9	43.6	88.8	8.2	23.6	46/23	30	30	Lottery Networks
69	CRACKER BARREL	487.6	30.9	29.7	41.5	38.4	8.5	12.1	34/21	24	33	Restaurants
70	HOMEDCO GROUP	444.5	66.5	32.4	19.5	20.0	4.4	27.2	37/21	28	19	Home Health Care
71	HEILIG-MEYERS	693.4	26.9	16.7	41.0	36.5	5.9	10.4	32/14	32	35	Furniture Stores
72	KCS ENERGY	218.6	67.3	44.7	9.9	275.2	4.5	29.5	32/5	32	37	Gas Mktg./Transport
73	INTL. GAME TECHNOLOGY	471.1	36.9	28.2	107.6	106.7	22.8	35.5	40/18	38	44	Gaming Machines
74	THERMO INSTRUMENT SYSTEMS	539.9	56.9	23.8	38.3	33.2	7.1	13.0	30/17	28	32	Instruments
75	CIRRUS LOGIC	386.6	67.2	32.6	13.5	–5.6	3.5	9.1	40/13	25	48	Computer Equipment
76	MEDICAL CARE AMERICA	650.0	14.4	15.9	27.7	–61.7	4.3	5.1	64/14	16	22	Outpatient Medical Service
77	STRYKER	522.6	24.4	23.8	54.1	35.3	10.3	21.8	40/21	28	25	Medical Products
78	FABRI-CENTERS OF AMERICA	591.5	21.3	18.3	3.4	–70.8	0.6	2.4	17/10	14	41	Fabric Stores
79	CONTINENTAL CAN	502.3	21.4	23.7	1.4	–79.2	0.3	2.2	33/18	24	55	Metal Cans
80	SUN TELEVISION & APPLIANCES	426.2	46.6	28.3	12.4	99.3	2.9	10.8	25/9	21	27	Appliance Stores
81	YOUNKERS	536.1	62.9	21.2	21.5	212.4	4.0	14.6	36/13	23	7	Department Stores
82	BOB EVANS FARMS	672.2	15.0	12.7	44.5	8.6	6.6	14.4	22/17	18	17	Restaurants
83	INTEGRATED HEALTH SERVICES	228.0	37.0	39.9	14.5	60.5	6.4	9.7	31/17	27	22	Nursing Care
84	COVENTRY	503.0	30.9	22.6	17.2	43.1	3.4	25.5	36/14	32	23	Managed Health Care
85	TELEPHONE & DATA SYSTEMS	516.0	28.7	21.4	34.2	15.7	6.6	3.1	52/32	52	72	Local Telephone
86	IDB COMMUNICATIONS GROUP	225.8	90.6	39.3	15.1	227.7	6.7	9.7	54/14	54	53	Communications Services
87	INFORMIX	325.7	47.0	33.1	50.8	51.6	15.6	35.0	27/9	23	30	Software
88	FRANKLIN QUEST	154.4	37.2	43.5	21.9	45.1	14.2	21.6	29/15	29	28	Training Seminars
89	WMS INDUSTRIES	331.1	45.9	32.4	30.7	22.8	9.3	21.1	31/16	26	20	Amusement Games
90	MOHAWK INDUSTRIES	507.9	73.6	21.3	18.0	110.9	3.6	12.6	31/8	29	28	Carpets & Rugs

ALPHABETICAL LIST OF COMPANIES ON PAGE 277

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It can affect you in ways you would never suspect

- a loss of interest or pleasure in your job, family life, hobbies or sex
- difficulty in concentrating or remembering
- physical pains that are hard to pin down
- sleep disturbances
- appetite loss (or overeating)
- unusual irritability
- a loss of self-esteem or an attitude of indifference
- a downhearted period that gets worse and just won't go away
- frequent or unexplainable crying spells

A combination of the above symptoms, persisting for two weeks or more, can be an indication of depressive illness and a warning to seek the advice of a doctor.

Because depression can be a lot more than just "the blues."

Over 10 million Americans today may suffer from depression. Unfortunately, it often goes unreported, and therefore undiagnosed and untreated, because people don't recognize the symptoms for what they are. Yet, depression can be diagnosed and treated in most cases. It's most important to realize that you are not alone by any means.

Do something for yourself and for those you love. See your doctor.

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A message in the interest of better health

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250 COMPANIES ON THE MOVE

RK	COMPANY	12-MONTH SALES $ MIL.	CHANGE FROM 1992 %	3-YEAR AVERAGE INCREASE %	12-MONTH PROFITS $ MIL	CHANGE FROM 1992 %	12-MONTH PROFIT MARGIN 1993	RETURN ON COMMON EQUITY %	STOCK DATA HIGH/LOW PRICE	STOCK DATA RECENT PRICE	STOCK DATA P-E RATIO	INDUSTRY DESCRIPTION
1	ALEX. BROWN	502.5	15.5	21.5	67.3	25.6	13.4	22.7	28/15	28	6	Securities Broker
2	SPARTAN MOTORS	153.4	37.9	43.2	11.3	41.7	7.4	24.5	25/9	23	26	Vehicle Chassis
3	BOSTON SCIENTIFIC	349.6	28.2	30.8	62.9	33.3	18.0	23.8	24/13	14	22	Medical Products
4	ASHLAND COAL	597.4	24.7	15.2	23.6	–34.9	4.0	8.4	30/22	28	22	Coal Mining
5	FLEET MORTGAGE GROUP	580.7	28.9	16.1	48.6	–47.3	8.4	10.3	26/16	17	21	Mortgage Banking
6	WHOLE FOODS MARKET	205.7	84.8	39.1	5.0	94.9	2.4	6.8	47/15	45	44	Grocery Stores
7	JONES APPAREL GROUP	497.8	27.3	20.9	45.1	25.8	9.1	30.3	42/19	27	15	Women's Clothing
8	COASTAL HEALTHCARE GROUP	352.7	29.5	29.8	11.5	17.6	3.3	22.8	30/16	25	28	Physician Practices
9	OGDEN PROJECTS	560.8	35.9	16.8	42.8	–16.2	7.6	12.1	24/15	17	15	Cogeneration
10	DESTEC ENERGY	606.1	42.7	13.9	98.2	19.3	16.2	16.6	19/13	18	11	Cogeneration
11	ANTHEM ELECTRONICS	593.0	27.4	14.7	27.6	3.4	4.7	13.8	49/31	38	17	Elect. Parts Dist.
12	DENTSPLY INTERNATIONAL	542.8	31.0	17.6	23.6	–5.8	4.4	22.5	55/25	37	40	Diagnostic Equipment
13	CLAYTON HOMES	476.3	28.3	21.7	53.8	36.7	11.3	16.3	31/16	25	21	Manufactured Housing
14	TELEFLEX	621.2	16.0	12.7	33.3	7.7	5.4	13.0	34/25	33	17	Aviation Products
15	J. BAKER	616.3	24.7	12.9	14.2	66.1	2.3	8.0	26/14	19	15	Shoe Stores
16	3COM	617.2	45.6	12.6	38.6	384.6	6.2	16.5	40/11	26	22	Computer Equipment
17	UNITED WISCONSIN SERVICES	489.8	33.1	20.5	26.9	32.3	5.5	25.7	43/21	26	11	Managed Health Care
18	PIPER JAFFRAY	398.4	16.5	26.1	40.3	23.8	10.1	27.2	32/21	31	7	Securities Broker
19	GOODY'S FAMILY CLOTHING	477.7	20.8	21.0	16.2	4.1	3.4	20.4	25/14	15	15	Clothing StoreS
20	KOMAG	375.9	29.7	26.7	26.2	180.2	7.0	9.9	24/14	19	15	Recording Media
21	FISERV	379.4	16.4	26.5	26.3	24.0	6.9	9.3	22/15	21	28	Data Processing
22	RPM	625.7	13.3	11.1	39.4	14.2	6.3	16.5	19/15	18	21	Industrial Coatings
23	SYQUEST TECHNOLOGY	202.4	23.7	37.5	15.8	53.1	7.8	18.1	29/9	12	9	Recording Media
24	AGCO	424.0	40.6	23.5	9.1	27.5	2.1	4.5	26/5	23	24	Farm Machinery
25	HOLLY	619.4	32.6	11.3	18.9	NM	3.0	51.8	31/23	28	12	Oil Refining
26	EXCEL INDUSTRIES	481.6	23.3	19.8	7.8	186.7	1.6	7.5	21/11	19	23	Auto Parts
27	COMSAT	622.9	17.6	10.6	49.0	–26.8	7.9	7.5	32/20	30	25	Communications Services
28	RAMSAY-HMO	253.4	38.7	33.5	10.6	60.4	4.2	10.5	39/22	31	20	Managed Health Care
29	U.S. ROBOTICS	150.8	46.5	39.5	14.6	50.3	9.7	14.8	30/14	30	23	Data Communications
30	BIOMET	335.4	22.0	27.7	64.0	23.5	19.1	21.2	22/8	10	17	Surgical Products
31	GOLDEN POULTRY	388.3	15.3	24.3	7.9	NM	2.0	9.2	11/6	7	12	Poultry
32	SCHOLASTIC	552.3	12.9	14.0	28.1	117.0	5.1	20.3	48/29	47	26	Publishing
33	ACCLAIM ENTERTAINMENT	284.7	65.7	30.5	21.6	133.6	7.6	24.9	28/6	25	50	Software
34	AMSCO INTERNATIONAL	515.2	17.1	16.0	27.4	–14.6	5.3	12.7	31/11	12	14	Surgical Products
35	ARBOR DRUGS	521.9	14.0	15.4	17.0	11.4	3.2	13.5	24/16	17	16	Drug Stores
36	WABASH NATIONAL	331.0	43.3	27.2	12.7	52.7	3.8	16.8	30/16	28	25	Truck Trailers
37	MICHAELS STORES	533.8	22.5	14.4	22.1	48.0	4.1	13.5	35/22	30	23	Arts & Crafts
38	MYLAN LABORATORIES	231.6	62.1	33.1	75.4	77.0	32.5	22.8	38/20	25	25	Pharmaceuticals
39	TULTEX	535.8	30.9	14.1	20.7	99.9	3.9	12.4	11/7	9	13	Knit Outerwear
40	SYSTEM SOFTWARE ASSOCIATES	238.8	33.2	32.5	20.8	3.5	8.7	24.6	26/10	17	22	Software

ALPHABETICAL LIST OF COMPANIES ON PAGE 277

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250 COMPANIES ON THE MOVE

RK	COMPANY	12-MONTH SALES $ MIL	CHANGE FROM 1992 %	3-YEAR AVERAGE INCREASE %	12-MONTH PROFITS $ MIL	CHANGE FROM 1992 %	12-MONTH PROFIT MARGIN 1993	RETURN ON COMMON EQUITY %	STOCK DATA HIGH/LOW PRICE	STOCK DATA RECENT PRICE	STOCK DATA P-E RATIO	INDUSTRY DESCRIPTION
31	RUSS BERRIE	407.8	20.7	21.7	48.9	17.4	12.0	20.8	23/12	14	6	Gift Items & Dolls
32	JUSTIN INDUSTRIES	477.6	16.5	17.3	32.2	94.3	6.7	20.0	25/12	21	18	Footwear
33	HOVNANIAN ENTERPRISES	447.1	39.9	19.1	10.5	312.6	2.3	7.0	14/9	14	31	Homebuilder
34	OAKWOOD HOMES	281.7	36.1	29.4	20.3	63.5	7.2	9.5	26/13	23	20	Manufactured Housing
35	CROMPTON & KNOWLES	550.9	16.4	12.5	48.5	21.7	8.8	22.1	27/18	20	21	Dyes & Chemicals
36	LENNAR	509.5	41.8	15.0	33.1	24.2	6.5	7.6	36/20	36	23	Homebuilder
37	D.R. HORTON	213.5	39.8	32.9	10.3	6.1	4.8	16.8	16/7	14	21	Homebuilder
38	ENRON OIL & GAS	531.2	31.9	13.1	124.4	71.3	23.4	14.6	54/27	50	32	Oil/Gas Production
39	NABORS INDUSTRIES	305.8	12.2	26.8	36.4	8.7	11.9	17.9	11/6	10	19	Oil/Gas Drilling
40	AMERICAN FREIGHTWAYS	292.9	24.2	27.6	16.2	53.1	5.5	16.3	21/9	18	32	Trucking
41	HORIZON HEALTHCARE	232.2	46.1	31.3	7.8	54.8	3.4	17.0	17/9	12	19	Nursing Care
42	FILENE'S BASEMENT	550.5	12.9	11.4	10.2	–40.1	1.9	9.0	24/7	9	19	Clothing Stores
43	JAN BELL MARKETING	328.2	27.5	25.2	0.5	–94.9	0.1	0.2	23/9	9	300	Jewelry
44	SUPERMAC TECHNOLOGY	166.1	69.9	35.2	7.8	68.0	4.7	14.3	25/9	15	16	Computer Peripherals
45	ALZA	233.0	22.6	31.0	74.1	NM	31.8	16.9	50/19	24	26	Pharmaceuticals
46	MEGAFOODS STORES	347.7	33.6	23.5	2.8	NM	0.8	5.2	20/7	10	26	Grocery Stores
47	MORGAN KEEGAN	197.6	16.0	32.9	28.7	28.1	14.5	29.1	13/8	13	6	Securities Broker
48	KENT ELECTRONICS	163.4	49.0	34.9	8.0	23.1	4.9	9.5	28/19	24	20	Elect. Parts Dist.
49	PIEDMONT NATURAL GAS	543.8	24.3	10.6	40.7	24.8	7.5	13.3	26/18	26	17	Gas Distribution
50	TJ INTERNATIONAL	467.6	35.6	15.2	7.6	NM	1.6	5.2	47/22	44	45	Building Products
51	AUTODESK	395.1	34.6	19.5	50.0	–2.8	12.7	18.7	57/39	48	24	Software
52	KIRBY	319.8	48.4	24.0	16.7	24.2	5.2	13.0	21/10	21	30	Barge Transport
53	DIAGNOSTEK	395.9	24.0	19.2	2.5	–81.1	0.6	1.5	18/6	13	130	Mail Order Drugs
54	MCDONALD & CO. INVESTMENTS	183.6	31.8	32.3	17.4	44.5	9.5	22.4	15/9	15	7	Securities Broker
55	RAYMOND JAMES FINANCIAL	412.2	19.0	18.0	45.0	16.9	10.9	23.5	28/15	26	8	Securities Broker
56	INTER-REGIONAL FINANCIAL	464.6	11.5	14.3	37.8	24.6	8.1	24.9	27/13	27	6	Securities Broker
57	QUALITY FOOD CENTERS	490.3	15.1	12.6	27.1	19.5	5.5	22.2	40/26	32	23	Grocery Stores
58	GATES/FA DISTRIBUTING	307.3	32.7	23.9	5.8	108.6	1.9	17.8	19/7	18	20	Computer Distributor
59	BUFFETS	285.0	27.0	25.3	17.1	27.4	6.0	23.1	21/11	20	35	Restaurants
60	ALLWASTE	287.4	34.6	25.1	11.0	0.0	3.8	10.9	8/4	5	16	Industrial Wastes
61	EQUITABLE OF IOWA	483.5	17.8	12.6	66.0	137.1	13.6	16.8	36/16	34	15	Insurance
62	SCIMED LIFE SYSTEMS	237.3	22.8	27.8	55.9	68.7	23.5	27.8	68/33	54	15	Medical Products
63	SLM INTERNATIONAL	257.3	37.6	26.4	19.0	67.3	7.4	19.0	41/15	41	26	Toys/Sporting Goods
64	FRETTER	366.5	17.6	19.5	5.8	63.7	1.6	8.6	4/2	3	8	Appliance Stores
65	CENTURY TELEPHONE	396.0	26.9	17.5	67.8	45.2	17.1	17.0	33/22	30	21	Local Telephone
66	THOMAS NELSON	162.9	69.9	32.0	4.6	–25.1	2.8	8.2	21/14	21	48	Publishing
67	BOMBAY	231.7	31.7	27.4	8.2	–14.7	3.5	11.8	44/14	44	125	Furniture Stores
68	TOLL BROTHERS	332.8	55.5	20.9	21.7	189.2	6.5	14.8	17/8	13	19	Homebuilder
69	DEL WEBB	391.6	50.1	17.3	16.9	19.9	4.3	8.5	21/12	13	12	Homebuilder
70	INDIANA ENERGY	491.5	23.1	11.0	38.3	47.9	7.8	15.6	37/28	37	14	Gas Distribution

ALPHABETICAL LIST OF COMPANIES ON PAGE 277

250 COMPANIES ON THE MOVE

RANK	COMPANY	12-MONTH SALES $ MIL	CHANGE FROM 1992 %	3-YEAR AVERAGE INCREASE %	12-MONTH PROFITS $ MIL.	CHANGE FROM 1992 %	12-MONTH PROFIT MARGIN 1993	RETURN ON COMMON EQUITY %	STOCK DATA HIGH/LOW PRICE	RECENT PRICE	P-E RATIO	INDUSTRY DESCRIPTION
171	BMC SOFTWARE	253.0	28.9	25.8	70.4	40.1	27.8	31.5	84/39	56	21	Software
172	TIMBERLAND	336.4	36.8	20.6	15.9	63.6	4.7	14.6	60/13	55	38	Footwear
173	CINTAS	452.7	12.7	13.3	44.9	23.0	9.9	17.3	31/25	28	29	Uniform Rentals
174	JOHN H. HARLAND	491.1	21.5	10.9	54.5	13.1	11.1	21.2	28/23	26	16	Financial Stationery
175	MID-AMERICAN WASTE SYSTEMS	171.0	15.9	30.8	18.3	–4.1	10.7	6.2	18/9	11	14	Waste Management
176	NUTMEG INDUSTRIES	166.7	27.0	30.9	11.8	48.1	7.1	13.6	15/8	15	23	Sportswear
177	CATO	378.4	27.1	17.4	23.9	78.3	6.3	21.4	24/11	22	27	Clothing Stores
178	SOFTWARE SPECTRUM	232.5	33.6	26.4	6.7	47.6	2.9	13.0	31/20	26	15	Software Dist.
179	EXPEDITORS INT'L./WASHINGTON	342.4	18.7	19.5	10.6	–0.7	3.1	12.8	35/25	29	17	Freight/Customs Service
180	LIUSKI INTERNATIONAL	240.7	37.7	25.8	3.4	28.1	1.4	23.6	13/6	10	10	Computer Component Dist.
181	NEW JERSEY RESOURCES	450.9	14.6	12.7	31.1	27.0	6.9	11.2	29/21	29	17	Gas Distribution
182	SOUTHERN ELECTRONICS	228.4	40.6	26.3	6.8	31.4	3.0	32.7	19/7	12	13	Computer Distributor
183	EASTEX ENERGY	253.8	88.8	24.7	2.4	34.5	0.9	14.6	8/4	8	16	Gas Transmission
184	INTERGROUP HEALTHCARE	344.6	32.3	18.7	17.4	35.8	5.1	29.2	32/19	31	17	Managed Health Care
185	ATMEL	172.5	46.3	29.4	19.9	102.8	11.5	13.6	35/8	33	31	Semiconductors
186	LECHTERS	317.6	28.9	20.3	15.3	15.8	4.8	12.1	24/11	11	13	Houseware Stores
187	DREYER'S GRAND ICE CREAM	438.6	15.6	12.7	16.9	20.4	3.8	15.5	32/15	27	24	Ice Cream
188	CORPORATE SOFTWARE	325.7	28.0	19.6	4.6	–9.0	1.4	8.2	14/7	11	14	Software Dist.
189	PIONEER-STANDARD ELECTRONICS	462.2	22.4	11.0	14.3	111.2	3.1	16.2	24/10	22	15	Elect. Parts Dist.
190	FOREST LABORATORIES	309.3	19.4	20.6	67.9	28.6	21.9	14.2	45/28	37	24	Pharmaceuticals
191	OCTEL COMMUNICATIONS	249.5	32.1	24.2	22.7	6.1	9.1	12.2	30/15	20	17	Voice Communications
192	TEJAS POWER	230.4	44.7	25.4	4.0	173.5	1.7	10.7	10/7	10	33	Gas Mktg./Storage
193	SUNRISE MEDICAL	303.7	35.7	20.7	16.5	57.5	5.4	8.7	32/18	25	21	Medical Products
194	LAM RESEARCH	265.0	54.6	23.0	18.9	90.1	7.1	14.5	49/13	49	42	Special Machinery
195	CHEMED	458.0	22.0	10.7	15.7	–1.8	3.4	11.4	32/24	32	19	Janitorial Products Dist.
196	INFORMATION RESOURCES	306.5	24.9	19.9	20.8	15.3	6.8	10.7	40/21	40	49	Information Services
197	MICRONICS COMPUTERS	174.8	10.8	27.6	9.1	–1.2	5.2	17.9	8/3	6	7	Circuit Boards
198	AUTOMOTIVE INDUST. HOLDINGS	291.3	26.2	20.3	19.3	127.3	6.6	17.3	31/13	30	24	Auto Parts
199	FRITZ	282.9	25.9	20.8	13.2	13.7	4.7	21.4	30/17	30	21	Freight/Customs Service
200	CLOTHESTIME	334.0	17.1	17.4	9.3	31.6	2.8	16.7	14/8	10	16	Clothing Stores
201	ONE PRICE CLOTHING STORES	208.8	35.7	25.2	7.1	17.9	3.4	16.8	20/9	18	17	Clothing Stores
202	GOVERNMENT TECHNOLOGY SVCS.	422.3	19.3	11.9	6.3	–3.1	1.5	11.1	11/4	10	10	Computer Distributor
203	XILINX	193.4	36.5	26.1	30.2	40.6	15.6	22.3	46/15	43	34	Semiconductors
204	CALIFORNIA MICROWAVE	267.2	34.3	21.3	10.0	96.6	3.7	8.7	28/10	28	29	Communications Equipment
205	DESIGNS	222.9	27.5	23.9	13.6	87.5	6.1	17.5	25/10	17	20	Clothing Stores
206	BIC	438.6	13.3	10.3	42.6	27.7	9.7	20.9	41/21	30	16	Pens, Lighters & Shavers
207	CHRIS-CRAFT INDUSTRIES	411.3	46.2	11.9	149.1	152.3	36.3	12.8	42/25	42	8	Television Stations
208	FRESENIUS USA	159.9	40.6	27.5	1.3	NM	0.8	4.1	9/3	8	89	Medical Products
[illegible]	AIRGAS	428.8	16.8	10.6	14.2	69.6	3.3	11.1	38/14	37	41	Specialty Gases
[illegible]	[illegible]ANTA	364.4	13.2	14.6	63.2	85.8	17.3	23.6	58/16	58	23	Personal Loans

ALPHABETICAL LIST OF COMPANIES ON PAGE 277

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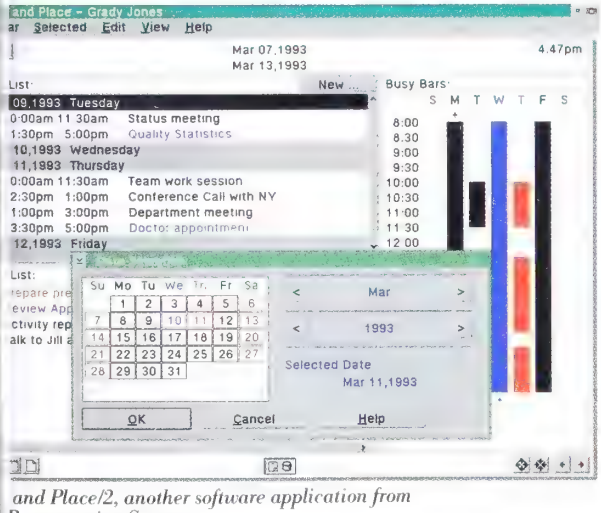

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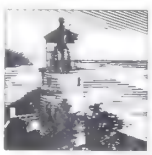

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250 COMPANIES ON THE MOVE

K	COMPANY	12-MONTH SALES $ MIL.	CHANGE FROM 1992 %	3-YEAR AVERAGE INCREASE %	12-MONTH PROFITS $ MIL.	CHANGE FROM 1992 %	12-MONTH PROFIT MARGIN 1993	RETURN ON COMMON EQUITY %	STOCK DATA HIGH/LOW PRICE	STOCK DATA RECENT PRICE	STOCK DATA P-E RATIO	INDUSTRY DESCRIPTION
1	COMPUWARE	247.6	31.1	21.7	37.8	NM	15.3	21.1	34/19	27	25	Software
2	BMC WEST	335.1	32.6	16.2	5.7	124.6	1.7	15.3	19/8	18	14	Building Supply Stores
3	QUICK & REILLY GROUP	209.6	24.8	24.0	32.1	30.3	15.3	18.0	36/18	36	12	Securities Broker
4	PATTERSON DENTAL	342.8	23.7	15.6	13.2	54.9	3.9	24.8	30/16	30	33	Dental Product Dist.
5	DRESS BARN	399.9	14.4	12.1	18.1	19.9	4.5	13.5	24/10	13	16	Clothing Stores
6	NICHOLS RESEARCH	153.9	44.1	27.3	6.9	20.6	4.5	13.6	19/12	13	12	Engineering Services
7	SYNCOR INTERNATIONAL	230.9	17.8	22.4	10.2	32.2	4.4	16.8	27/15	16	17	Nuclear Medicine Dist.
8	ROADMASTER INDUSTRIES	267.3	23.9	20.1	5.2	–0.5	1.9	33.6	4/1	3	18	Bicycles/Leisure
9	DISCOUNT AUTO PARTS	176.8	25.2	25.5	11.9	53.3	6.7	14.9	31/21	26	30	Auto Supplies Stores
0	HEALTH MANAGEMENT ASSOC.	305.2	12.9	17.4	29.7	51.2	9.7	16.1	35/16	34	22	Hospitals
1	STEIN MART	307.8	26.0	17.2	14.9	5.1	4.9	27.5	35/15	34	35	Clothing Stores
2	R.P. SCHERER	403.1	13.0	11.2	29.2	455.3	7.2	14.4	39/24	29	24	Pharmaceuticals
3	SYRATECH	203.4	30.3	23.5	16.5	20.4	8.1	14.2	23/13	14	9	Silverware
4	BHC COMMUNICATIONS	385.5	48.9	12.1	230.9	132.3	59.9	14.0	76/59	76	9	Television Stations
5	VIVRA	210.0	37.9	22.9	21.3	22.9	10.2	13.8	35/22	33	20	Dialysis Services
6	AUGAT	394.3	20.1	11.4	9.5	NM	2.4	4.9	21/10	20	40	Electronic Components
7	ADOBE SYSTEMS	281.9	11.8	18.4	45.0	–17.3	16.0	17.6	37/13	20	20	Software
8	CASH AMERICA INTL.	207.3	30.3	22.7	12.7	9.9	6.1	8.1	11/6	8	18	Pawnshops
9	SNYDER OIL	160.8	57.1	25.6	23.4	85.7	14.6	9.2	23/9	21	28	Oil/Gas Production
0	BED BATH & BEYOND	232.7	31.5	21.0	16.9	33.0	7.3	29.1	29/10	29	57	Houseware Stores
1	LINEAR TECHNOLOGY	150.9	26.3	26.0	36.4	45.6	24.2	22.4	35/18	33	34	Semiconductors
2	SUPERIOR INDUSTRIES INTL.	371.0	21.2	12.2	38.7	52.4	10.4	24.2	46/13	43	34	Auto Parts
3	UNITED RETAIL GROUP	351.1	22.5	13.5	10.1	NM	2.9	11.2	30/12	12	16	Clothing Stores
4	ALLOU HEALTH & BEAUTY CARE	169.7	23.7	24.7	3.2	46.9	1.9	15.4	10/6	9	15	Health/Beauty Dist.
5	MEN'S WEARHOUSE	194.6	34.9	23.1	6.7	59.0	3.5	13.0	23/8	22	36	Clothing Stores
6	CAGLE'S	293.8	33.7	16.9	6.5	204.2	2.2	24.2	31/10	25	8	Poultry
7	STEWART INFORMATION SVCS.	309.2	24.1	15.5	17.7	115.4	5.7	13.6	30/14	28	6	Title Insurance
8	INVACARE	336.5	21.9	13.8	19.6	24.7	5.8	15.8	28/19	24	18	Medical Products
9	DAMARK INTERNATIONAL	296.3	19.0	16.2	2.8	59.0	0.9	8.9	17/4	17	47	Catalog Sales
0	GREEN TREE FINANCIAL	283.3	22.8	17.0	91.3	42.1	32.2	28.4	49/16	48	16	Mfg. Home Finance
1	SURGICAL CARE AFFILIATES	213.9	29.9	21.2	30.7	29.7	14.4	19.0	30/15	17	20	Outpatient Medical Services
2	RYAN'S FAMILY STEAK HOUSES	370.2	13.8	11.4	29.8	23.6	8.1	13.3	12/7	9	16	Restaurants
3	MEDIPLEX GROUP	328.7	33.2	13.9	6.1	–45.2	1.9	6.9	28/13	23	31	Nursing Care
4	UNI-MARTS	338.5	13.4	13.2	2.6	37.0	0.8	9.3	6/2	6	16	Convenience Stores
5	ZILOG	180.6	49.9	22.8	21.5	65.0	11.9	14.7	33/16	33	27	Semiconductors
6	ORBITAL SCIENCES	182.2	25.8	22.7	3.7	94.3	2.0	3.9	16/9	16	49	Space Vehicles
7	SUNGARD DATA SYSTEMS	357.0	20.3	11.2	32.3	36.2	9.1	11.0	40/24	40	20	Computer Services
8	AMERICAN MANAGEMENT SYSTEMS	353.8	17.8	11.4	18.2	32.4	5.2	20.1	24/15	18	17	Computer Services
9	LEGG MASON	346.5	13.4	11.7	30.7	25.0	8.9	17.4	30/21	29	9	Securities Broker
0	SEQUENT COMPUTER SYSTEMS	329.0	30.6	12.8	14.1	NM	4.3	5.7	24/11	15	29	Computers

ALPHABETICAL LIST OF COMPANIES ON PAGE 277

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Alphabetical List of Companies

MPANY	STOCK SYMBOL	RANK
A		
CLAIM ENTERTAINMENT ster Bay, NY 516-624-8888	AKLM	123
AMS RESOURCES uston, TX 713-797-9966	AE	1
APTEC lpitas, CA 408-945-8600	ADPT	58
OBE SYSTEMS untain View, CA 415-961-4400	ADBE	227
VANTA ymont, DE 302-791-4400	ADVNA	210
S ington, VA 703-522-1315	AESC	54
CO rcross, GA 404-447-5546	AGCO	114
RGAS dnor, PA 215-687-5253	ARG	209
EX. BROWN ltimore, MD 410-727-1700	AB	91
LOU HEALTH & BEAUTY CARE ntwood, NY 516-273-4000	ALU	234
LWASTE uston, TX 713-623-8777	ALW	160
ZA lo Alto, CA 415-494-5000	AZA	145
ERICAN FREIGHTWAYS rrison, AR 501-741-9000	AFWY	140
ERICAN MANAGEMENT SYSTEMS ington, VA 703-841-6000	AMSY	248
ERICAN POWER CONVERSION st Kingston, RI 401-789-5735	APCC	57
SCO INTERNATIONAL tsburgh, PA 412-338-6500	ASZ	124
THEM ELECTRONICS Jose, CA 408-453-1200	ATM	101
PLIED MATERIALS nta Clara, CA 408-727-5555	AMAT	21
BOR DRUGS y, MI 313-643-9420	ARBR	125
HLAND COAL ntington, WV 304-526-3333	ACI	94
MEL Jose, CA 408-441-0311	ATML	185
GAT nsfield, MA 508-543-4300	AUG	226
TODESK salito, CA 415-332-2344	ACAD	151
TOMOTIVE INDUSTRIES HOLDINGS neapolis, MN 612-332-6828	AIHI	198

COMPANY	STOCK SYMBOL	RANK
B		
BAKER (J.) Canton, MA 617-828-9300	JBAK	105
BED BATH & BEYOND Springfield, NJ 201-379-1520	BBBY	230
BHC COMMUNICATIONS New York, NY 212-421-0200	BHC	224
BIC Milford, CT 203-783-2000	BIC	206
BIOGEN Cambridge, MA 617-252-9200	BGEN	66
BIOMET Warsaw, IN 219-267-6639	BMET	120
BMC SOFTWARE Sugar Land, TX 713-240-8800	BMCS	171
BMC WEST Boise, ID 208-338-1750	BMCW	212
BOB EVANS FARMS Columbus, OH 614-491-2225	BOBE	82
BOMBAY Fort Worth, TX 817-347-8200	BBA	167
BOSTON SCIENTIFIC Watertown, MA 617-923-1720	BSX	93
BRINKER INTERNATIONAL Dallas, TX 214-980-9917	EAT	56
BUFFETS Eden Prairie, MN 612-942-9760	BOCB	159
C		
CABLETRON SYSTEMS Rochester, NH 603-332-9400	CS	47
CAGLE'S Atlanta, GA 404-355-2820	CGL.A	236
CALIFORNIA MICROWAVE Sunnyvale, CA 408-732-4000	CMIC	204
CASH AMERICA INTERNATIONAL Fort Worth, TX 817-335-1100	PWN	228
CATO Charlotte, NC 704-554-8510	CACOA	177
CENTURY TELEPHONE ENTERPRISES Monroe, LA 318-388-9500	CTL	165
CHEMED Cincinnati, OH 513-762-6900	CHE	195
CHRIS-CRAFT INDUSTRIES New York, NY 212-421-0200	CCN	207
CINTAS Cincinnati, OH 513-459-1200	CTAS	173
CIRRUS LOGIC Fremont, CA 510-623-8300	CRUS	75
CISCO SYSTEMS Menlo Park, CA 415-326-1941	CSCO	2

COMPANY	STOCK SYMBOL	RANK
CLAYTON HOMES Knoxville, TN 615-970-7200	CMH	103
CLOTHESTIME Anaheim, CA 714-779-5881	CTME	200
CML GROUP Acton, MA 508-264-4155	CML	34
COASTAL HEALTHCARE GROUP Durham, NC 919-383-0355	CGRP	98
COCA-COLA BOTTLING Charlotte, NC 704-551-4400	COKE	65
COMPUCOM SYSTEMS Dallas, TX 214-265-3600	CMPC	14
COMPUWARE Farmington Hills, MI 313-737-7300	CPWR	211
COMSAT Washington, DC 202-863-6000	CQ	117
CONSOLIDATED STORES Wilmington, DE 302-478-4896	CNS	27
CONTINENTAL CAN Syosset, NY 516-822-4940	CAN	79
CONTINENTAL MEDICAL Mechanicsburg, PA 717-790-8300	CNM	6
CORPORATE SOFTWARE Canton, MA 617-821-4500	CSOF	188
COUNTRYWIDE CREDIT INDUSTRIES Pasadena, CA 818-304-8400	CCR	8
COVENTRY Nashville, TN 615-391-2440	CVTY	84
CRACKER BARREL OLD COUNTRY STORE Lebanon, TN 615-444-5533	CBRL	69
CROMPTON & KNOWLES Stamford, CT 203-353-5400	CNK	135
CUC INTERNATIONAL Stamford, CT 203-324-9261	CU	67
D		
DAMARK INTERNATIONAL Minneapolis, MN 612-531-0066	DMRK	239
DENTSPLY INTERNATIONAL Rockford, IL 815-395-9729	XRAY	102
DESIGNS Chestnut Hill, MA 617-739-6722	DESI	205
DESTEC ENERGY Houston, TX 713-735-4000	ENG	100
DIAGNOSTEK Albuquerque, NM 505-345-8080	DXK	153
DISCOUNT AUTO PARTS Lakeland, FL 813-687-9226	DAP	219
DOLLAR GENERAL Nashville, TN 615-783-2000	DOLR	23

Alphabetical List of Companies

COMPANY	STOCK SYMBOL	RANK
DRESS BARN Stamford, CT 203-327-4242	DBRN	215
DREYER'S GRAND ICE CREAM Oakland, CA 510-652-8187	DRYR	187
E		
EASTEX ENERGY Houston, TX 713-650-6255	ETEX	183
ELECTROCOM AUTOMATION Arlington, TX 817-640-5690	ECA	40
ELECTRONIC ARTS San Mateo, CA 415-571-7171	ERTS	51
EMC Hopkinton, MA 508-435-1000	EMC	25
ENRON OIL & GAS Houston, TX 713-853-6161	EOG	138
EQUITABLE OF IOWA Des Moines, IA 515-245-6911	EQIC	161
EQUITABLE RESOURCES Pittsburgh, PA 412-261-3000	EQT	48
EXCEL INDUSTRIES Elkhart, IN 219-264-2131	EXC	116
EXPEDITORS INT'L. OF WASHINGTON Seattle, WA 206-246-3711	EXPD	179
F		
FABRI-CENTERS OF AMERICA Hudson, OH 216-656-2600	FCA	78
FIDELITY NATIONAL FINANCIAL Irvine, CA 714-852-9770	FNF	32
FILENE'S BASEMENT Wellesley, MA 617-348-7000	BSMT	142
FISERV Brookfield, WI 414-879-5000	FISV	111
FLEET MORTGAGE GROUP Columbia, SC 803-929-7900	FLG	95
FOREST LABORATORIES New York, NY 212-421-7850	FRX	190
FRANKLIN QUEST Salt Lake City, UT 801-975-1776	FNQ	88
FRESENIUS USA Walnut Creek, CA 510-295-0200	FRN	2
FRETTER Livonia, MI 313-591-0600	FTTR	1
FRITZ San Francisco, CA 415-904-8360	FRTZ	1
FUTURE NOW Cincinnati, OH 513-792-4500	FNOW	
G		
GATES/FA DISTRIBUTING Greenville, SC 803-234-0736	GAFA	1
GENZYME Cambridge, MA 617-252-7500	GENZ	
GIDDINGS & LEWIS Fond Du Lac, WI 414-921-4100	GIDL	
GOLDEN POULTRY Atlanta, GA 404-393-5000	CHIK	1
GOODY'S FAMILY CLOTHING Knoxville, TN 615-966-2000	GDYS	14

SCORING THE ENTREPRENEURIAL COMPANY QUIZ

The statements on page 257 focus on five facets of an entrepreneurial mindset: resources, opportunities, incentives, empowerment, and strategy. Add up your point score below using the following symbols (except question #2): SA=*strongly agree,* IA=*inclined to agree,* ID=*inclined to disagree,* SD=*strongly disagree.*

Score your response to each item as

1. SD(4) ID(3) IA(2) SA(1)
2. A(5) B(4) C(3) D(2) E(1) F(0)
3. SD(4) ID(3) IA(2) SA(1)
4. SD(4) ID(3) IA(2) SA(1)
5. SA(4) IA(3) ID(2) SD(1)
6. SD(4) ID(3) IA(2) SA(1)
7. SD(4) ID(3) IA(2) SA(1)
8. SD(4) ID(4) IA(2) SA(1)
9. SA(4) IA(4) ID(2) SD(1)
10. SD(4) ID(3) IA(2) SA(1)
11. SD(4) ID(3) IA(2) SA(1)
12. SA(4) IA(3) ID(2) SD(1)
13. SA(4) IA(3) ID(2) SD(1)
14. SD(4) ID(3) IA(2) SA(1)
15. SA(4) ID(3) ID(2) ID(1)

HOW YOUR COMPANY RATES ON KEY ASPECTS OF AN ENTREPRENEURIAL MIND-SET

High scores on the following groups of statements mean you're excelling in those areas:

Resources (#1, #4, #5). Your company knows how to gain access to resources. It doesn't worry about owning or maximizing resources. It concentrates on getting the resources it needs and putting them to their best use.

Opportunities (#2, #3, #14). Your company fosters an opportunity-driven process. Regardless of the resources it owns or controls, it appreciates that the best ideas and opportunities come from customers, rather than from within the company.

Incentives (#6, #7, #13). Your company rewards action and calculated risk-taking by basing incentives on long-term value creation and marketplace success or failure—not some internal corporate system.

Empowerment (#8, #9, #15). Your company empowers its people, particularly by fostering teamwork. It treats employees with respect and values their talents. If you strongly agreed with #8, it means you are thinking entrepreneurially, even if your company isn't.

Strategic process (#10, #11, #12). Your company's strategy is a function of opportunity, not ingrained predispositions. It is also flexible: The company can commit quickly to new ideas and just as quickly abandon unsuccessful ones.

SCORING: *45–61, your company either thinks or acts entrepreneurially; 30–44, your company is doing O.K., but it's probably missing some good opportunities; 29 or less, watch out! Bureaucrats are probably running the show.*

MPANY	STOCK SYMBOL	RANK
OVERNMENT TECHNOLOGY SVCS. antilly, VA 703-631-3333	GTSI	202
RAND VALLEY GAS lt Lake City, UT 801-531-4400	GVGC	29
REEN TREE FINANCIAL . Paul, MN 612-293-3400	GNT	240
TECH HOLDINGS est Greenwich, RI 401-392-1000	GTK	68
H		
ARLAND (JOHN H.) catur, GA 404-981-9460	JH	174
ALTH MANAGEMENT ASSOCIATES ples, FL 813-598-3131	HMA	220
ALTHSOURCE ncord, NH 603-225-5077	HS	26
ALTHSOUTH REHABILITATION rmingham, AL 205-967-7116	HRC	44
ILIG-MEYERS chmond, VA 804-359-9171	HMY	71
LLY llas, TX 214-871-3555	HOC	115
MEDCO GROUP untain Valley, CA 714-755-5600	HOME	70
RIZON HEALTHCARE uquerque, NM 505-881-4961	HHC	141
RTON (D.R) ington, TX 817-856-8200	DRHI	137
VNANIAN ENTERPRISES d Bank, NJ 908-747-7800	HOV	133
FFY umisburg, OH 513-866-6251	HUF	63
NT (J.B.) TRANSPORT SVCS. vell, AR 501-820-0000	JBHT	18
I		
COMMUNICATIONS GROUP ver City, CA 213-870-9000	IDBX	86
IANA ENERGY ianapolis, IN 317-926-3351	IEI	170
ORMATION RESOURCES cago, IL 312-726-1221	IRIC	196
ORMIX lo Park, CA 415-926-6300	IFMX	87
EGRATED HEALTH SERVICES t Valley, MD 410-584-7050	IHSI	83
ER-REGIONAL FINANCIAL GROUP neapolis, MN 612-371-7750	IFG	156
ERGROUP HEALTHCARE son, AZ 602-721-4444	IGHC	184
ERNATIONAL GAME TECHNOLOGY o, NV 702-688-0100	IGT	73
ACARE ia, OH 216-329-6000	IVCR	238
K mi, FL 305-590-2200	IVX	20
J		
BELL MARKETING rise, FL 305-846-2705	JBM	143

Alphabetical List of Companies

COMPANY	STOCK SYMBOL	RANK
JONES APPAREL GROUP Bristol, PA 215-785-4000	JNY	97
JUSTIN INDUSTRIES Fort Worth, TX 817-336-5125	JSTN	132
K		
KANSAS CITY SOUTHERN INDS. Kansas City, MO 816-556-0303	KSU	38
KCS ENERGY Edison, NJ 908-632-1770	KCS	72
KENT ELECTRONICS Houston, TX 713-780-7770	KNT	148
KIRBY Houston, TX 713-629-9370	KEX	152
KOMAG Milpitas, CA 408-946-2300	KMAG	110
L		
LAM RESEARCH Fremont, CA 510-659-0200	LRCX	194
LECHTERS Harrison, NJ 201-481-1100	LECH	186
LEGG MASON Baltimore, MD 410-539-0000	LM	249
LENNAR Miami, FL 305-559-4000	LEN	136
LIBERTY MEDIA Denver, CO 303-721-5400	LBTYA	4
LINEAR TECHNOLOGY Milpitas, CA 408-432-1900	LLTC	231
LIUSKI INTERNATIONAL Melville, NY 516-454-8220	LSKI	180
LUKENS Coatesville, PA 215-383-2000	LUC	28
M		
MARVEL ENTERTAINMENT GROUP New York, NY 212-696-0808	MRV	13
McDONALD & CO. INVESTMENTS Cleveland, OH 216-443-2300	MDD	154
MEDICAL CARE AMERICA Dallas, TX 214-701-2200	MRX	76
MEDIPLEX GROUP Wellesley, MA 617-446-6900	MPX	243
MEGAFOODS STORES Mesa, AZ 602-926-1087	MEGF	146
MEN'S WEARHOUSE Houston, TX 713-664-3692	SUIT	235
MERRY-GO-ROUND ENTERPRISES Joppa, MD 410-538-1000	MGR	41
MICHAELS STORES Irving, TX 214-714-7000	MIKE	127
MICRO WAREHOUSE South Norwalk, CT 203-854-1700	MWHS	52
MICRON TECHNOLOGY Boise, ID 208-368-4000	MU	49
MICRONICS COMPUTERS Fremont, CA 510-651-2300	MCRN	197
MID ATLANTIC MEDICAL SVCS. Rockville, MD 301-294-5140	MAMS	19
MID-AMERICAN WASTE SYSTEMS Canal Winchester, OH 614-833-9155	MAW	175
MOHAWK INDUSTRIES Atlanta, GA 404-951-6000	MOHK	90
MOLEX Lisle, IL 708-969-4550	MOLX	45
MORGAN KEEGAN Memphis, TN 901-524-4100	MOR	147
MYLAN LABORATORIES Pittsburgh, PA 412-232-0100	MYL	128
N		
NABORS INDUSTRIES Houston, TX 713-874-0035	NBR	139
NATIONAL HEALTH LABS. La Jolla, CA 619-454-3314	NH	61
NELSON (THOMAS) Nashville, TN 615-889-9000	TNEL	166
NEW JERSEY RESOURCES Wall, NJ 908-938-1480	NJR	181
NICHOLS RESEARCH Huntsville, AL 205-883-1140	NRES	216
NORTH AMERICAN MORTGAGE Santa Rosa, CA 707-523-5000	NAC	62
NOVACARE Valley Forge, PA 215-631-9300	NOV	15
NUTMEG INDUSTRIES Tampa, FL 813-963-6153	NTM	176
O		
OAKWOOD HOMES Greensboro, NC 919-855-2400	OH	134
OCTEL COMMUNICATIONS Milpitas, CA 408-942-6500	OCTL	191
OGDEN PROJECTS Fairfield, NJ 201-882-9000	OPI	99
ONE PRICE CLOTHING STORES Duncan, SC 803-439-6666	ONPR	201
ORANGE & ROCKLAND UTILITIES Pearl River, NY 914-352-6000	ORU	42
ORBITAL SCIENCES Fairfax, VA 703-631-3600	ORBI	24
OXFORD HEALTH PLANS Darien, CT 203-656-1442	OXHP	5
P		
PARKER & PARSLEY PETROLEUM Midland, TX 915-683-4768	PDP	3
PATTERSON DENTAL Bloomington, MN 612-854-2881	PDCO	21
PERRIGO Allegan, MI 616-673-8451	PRGO	3
PIEDMONT NATURAL GAS Charlotte, NC 704-364-3120	PNY	14
PIONEER-STANDARD ELECTRONICS Cleveland, OH 216-587-3600	PIOS	18
PIPER JAFFRAY Minneapolis, MN 612-342-6000	PJC	10
Q		
QUALITY FOOD CENTERS Bellevue, WA 206-455-3761	QFCI	15
QUICK & REILLY GROUP Palm Beach, FL 407-655-8000	BQR	21
R		
RAMSAY-HMO Coral Gables, FL 305-447-3200	RMO	11
RAYMOND JAMES FINANCIAL St. Petersburg, FL 813-573-3800	RJF	15
READ-RITE Milpitas, CA 408-262-6700	RDRT	.
ROADMASTER INDUSTRIES Englewood, CO 303-796-8940	RDM	21
RPM Medina, OH 216-273-5090	RPOW	11
RUSS BERRIE Oakland, NJ 201-337-9000	RUS	13
RYAN'S FAMILY STEAK HOUSES Greer, SC 803-879-1000	RYAN	24
S		
SAFEGUARD SCIENTIFICS Wayne, PA 215-293-0600	SFE	1
SCHERER (R.P.) Troy, MI 313-649-0900	SHR	22
SCHOLASTIC New York, NY 212-505-3000	SCHL	12
SCIMED LIFE SYSTEMS Maple Grove, MN 612-494-1700	SMLS	16

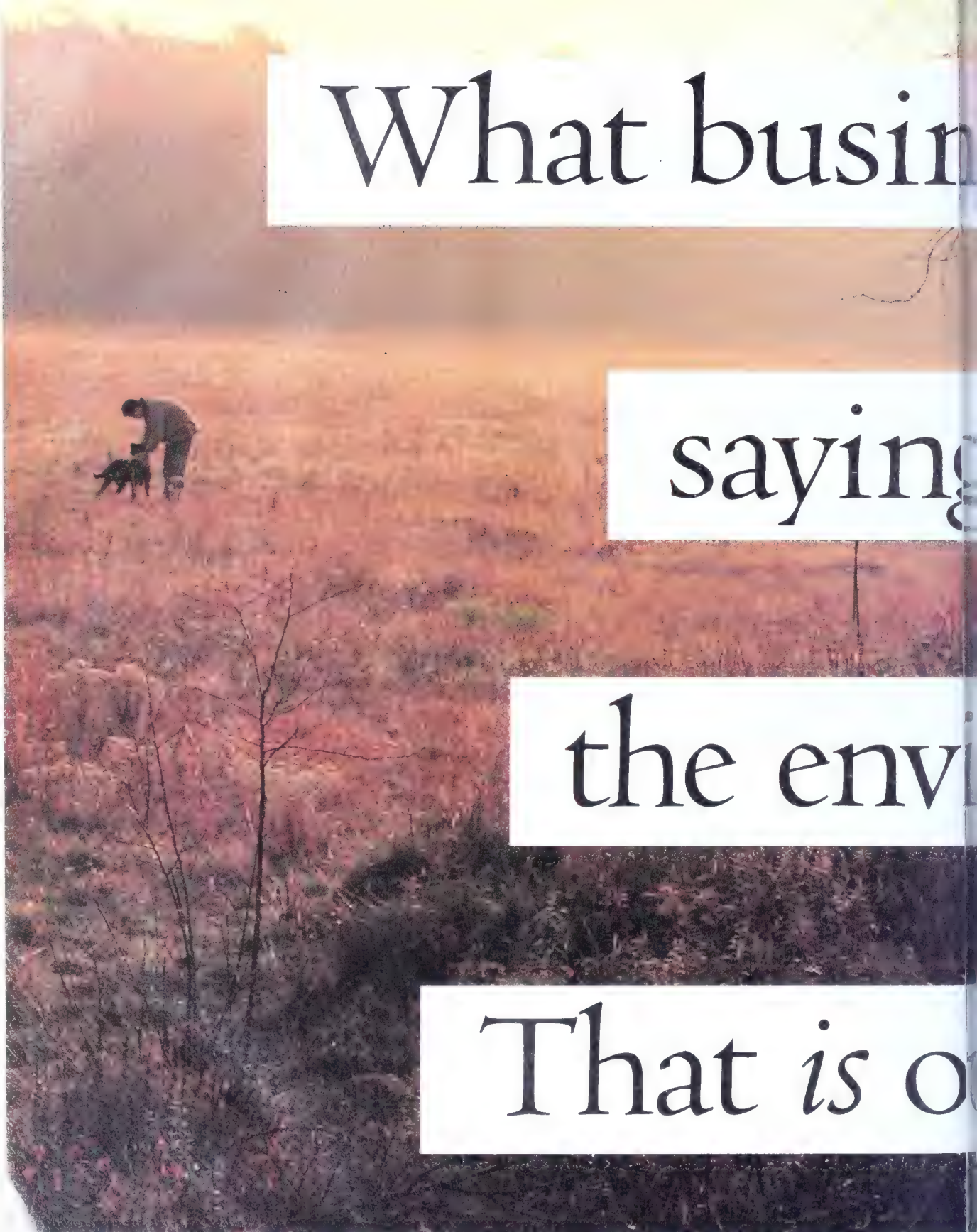
MPANY	STOCK SYMBOL	RANK
NSORMATIC ELECTRONICS erfield Beach, FL 305-427-9700	SRM	46
QUENT COMPUTER SYSTEMS averton, OR 503-626-5700	SQNT	250
RVICE CORP. INTERNATIONAL uston, TX 713-522-5141	SRV	50
M INTERNATIONAL w York, NY 212-675-0070	SLMI	163
ART & FINAL nta Barbara, CA 805-564-6700	SMF	60
YDER OIL rt Worth, TX 817-338-4043	SNY	229
FTWARE SPECTRUM rland, TX 214-840-6600	SSPE	178
LECTRON pitas, CA 408-957-8500	SLR	10
UTHERN ELECTRONICS :ker, GA 404-491-8962	SECX	182
ARTAN MOTORS arlotte, MI 517-543-6400	SPAR	92
NDARD MICROSYSTEMS ppauge, NY 516-273-3100	SMSC	55
PLES mingham, MA 508-370-8500	SPLS	7
IN MART ksonville, FL 904-346-1500	SMRT	221
WART & STEVENSON ston, TX 713-868-7700	SSSS	35
WART INFORMATION SERVICES ston, TX 713-871-1100	SISC	237
YKER amazoo, MI 616-385-2600	STRY	77
TELEVISION & APPLIANCES mbus, OH 614-445-8401	SNTV	80
IGARD DATA SYSTEMS yne, PA 215-341-8700	SNDT	247
IRISE MEDICAL rance, CA 213-328-8018	SMD	193
ERIOR INDUSTRIES INTERNATIONAL Nuys, CA 818-781-4973	SUP	232
ERMAC TECHNOLOGY nyvale, CA 408-245-2202	SMAC	144
SURGICAL CARE AFFILIATES Nashville, TN 615-385-3541	SCA	241
SYBASE Emeryville, CA 510-596-3500	SYBS	39
SYNCOR INTERNATIONAL Chatsworth, CA 818-886-7400	SCOR	217
SYNOPTICS COMMUNICATIONS Santa Clara, CA 408-988-2400	SNPX	16
SYQUEST TECHNOLOGY Fremont, CA 510-226-4000	SYQT	113
SYRATECH Boston, MA 617-561-2200	SYRA	223
SYSTEM SOFTWARE ASSOCIATES Chicago, IL 312-641-2900	SSAX	130
T		
TAKECARE Concord, CA 510-246-1300	TKCR	9
TEJAS GAS Houston, TX 713-658-0509	TEJ	36
TEJAS POWER Houston, TX 713-597-6200	TPC	192
TELEFLEX Plymouth Meeting, PA 215-834-6301	TFX	104
TELEPHONE & DATA SYSTEMS Chicago, IL 312-630-1900	TDS	85
THERMO INSTRUMENT SYSTEMS Santa Fe, NM 617-622-1000	THI	74
THOR INDUSTRIES Jackson Center, OH 513-596-6849	THO	59
3COM Santa Clara, CA 408-764-5000	COMS	106
TIMBERLAND Hampton, NH 603-926-1600	TBL	172
TJ INTERNATIONAL Boise, ID 208-345-8500	TJCO	150
TNT FREIGHTWAYS Rosemont, IL 708-696-0200	TNTF	43
TOLL BROTHERS Huntingdon Valley, PA 215-938-8000	TOL	168
TULTEX Martinsville, VA 703-632-2961	TTX	129
U		
U.S. ROBOTICS Skokie, IL 708-982-5010	USRX	119
UNI-MARTS State College, PA 814-234-6000	UNI	244
UNITED RETAIL GROUP Rochelle Park, NJ 201-845-0880	URGI	233
UNITED WISCONSIN SERVICES Milwaukee, WI 414-226-6900	UWSI	107
V		
VALUE HEALTH Avon, CT 203-678-3400	VH	17
VENCOR Louisville, KY 502-569-7300	VC	64
VIKING OFFICE PRODUCTS Los Angeles, CA 213-321-4493	VKNG	33
VISHAY INTERTECHNOLOGY Malvern, PA 215-644-1300	VSH	31
VIVRA Burlingame, CA 415-348-8200	V	225
W		
WABASH NATIONAL Lafayette, IN 317-448-1591	WNC	126
WEBB (DEL) Phoenix, AZ 602-468-6800	WBB	169
WESTERN GAS RESOURCES Denver, CO 303-452-5603	WGR	12
WHOLE FOODS MARKET Austin, TX 512-328-7541	WFMI	96
WMS INDUSTRIES Chicago, IL 312-728-2300	WMS	89
XYZ		
XILINX San Jose, CA 408-559-7778	XLNX	203
YOUNKERS Des Moines, IA 515-244-1112	YONK	81
ZILOG Campbell, CA 408-370-8000	ZLOG	245

SINESS WEEK
TOBER 22, 1993 3342
N 0007-7135

olished weekly, except for one issue in January, by McGraw-Hill, Inc.
nder: James H. McGraw (1860-1948).
ecutive, Editorial, Circulation, and Advertising Offices: McGraw-Hill
lding, 1221 Avenue of the Americas, New York, N.Y. 10020.
ephone: 212-512-2000. Telex: Domestic 127039; Intl. 2360127039.

. subscription rate $46.95 per year; 2 years, $78.95; 3 years, $104.95.
gle copies, $2.75; back issues, $5. Write for rates in other countries.
scriber Services: 1-800-635-1200. TDD: 1-800-554-1579
tmaster: Send address changes to BUSINESS WEEK, P.O. Box 430,
htstown, N.J. 08520. Second-class postage paid at New York, N.Y.,
at additional mailing offices. Postage paid at Montreal, P.Q. Canada
t International Publications Mail Product Sales Agreement No.
484. Registered for GST as McGraw-Hill, Inc. GST #R123075673.

European Circulation Center, McGraw-Hill House, Maidenhead, Berks, England. Telephone: 0628-23431; Telex: 848640.
Officers of McGraw-Hill, Inc.: Joseph L. Dionne, Chairman and Chief Executive Officer; Harold W. McGraw, III, President and Chief Operating Officer; Robert N. Landes, Executive Vice President, General Counsel, and Secretary; Robert J. Bahash, Executive Vice President and Chief Financial Officer; Frank D. Penglase, Senior Vice President, Treasury Operations.



Bog Creek Farm may not be Yellowstone, but the mere fact yo
can be here at all is beautiful to contemplate. It was once one of t

CHOOLS SPECIAL REPORT ON EXECUTIVE EDUCATION

JAPAN BOOMERS' GAIN ECONOMIC CLOUT

KMART WHO'S MINDING THE GUN COUNTER?

BusinessWeek

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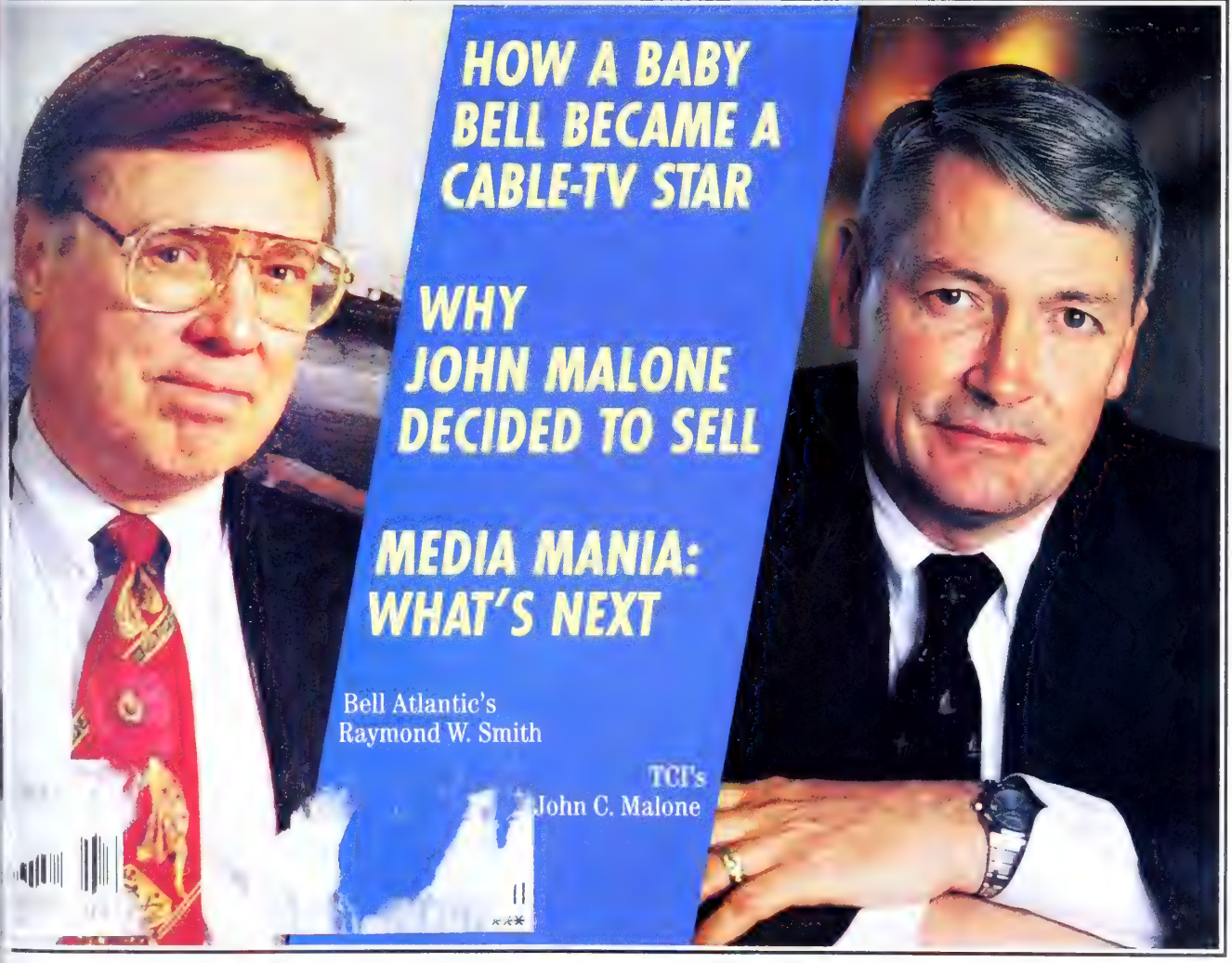
WOW!

BEHIND THE $12 BILLION ELL ATLANTIC-TCI MERGER



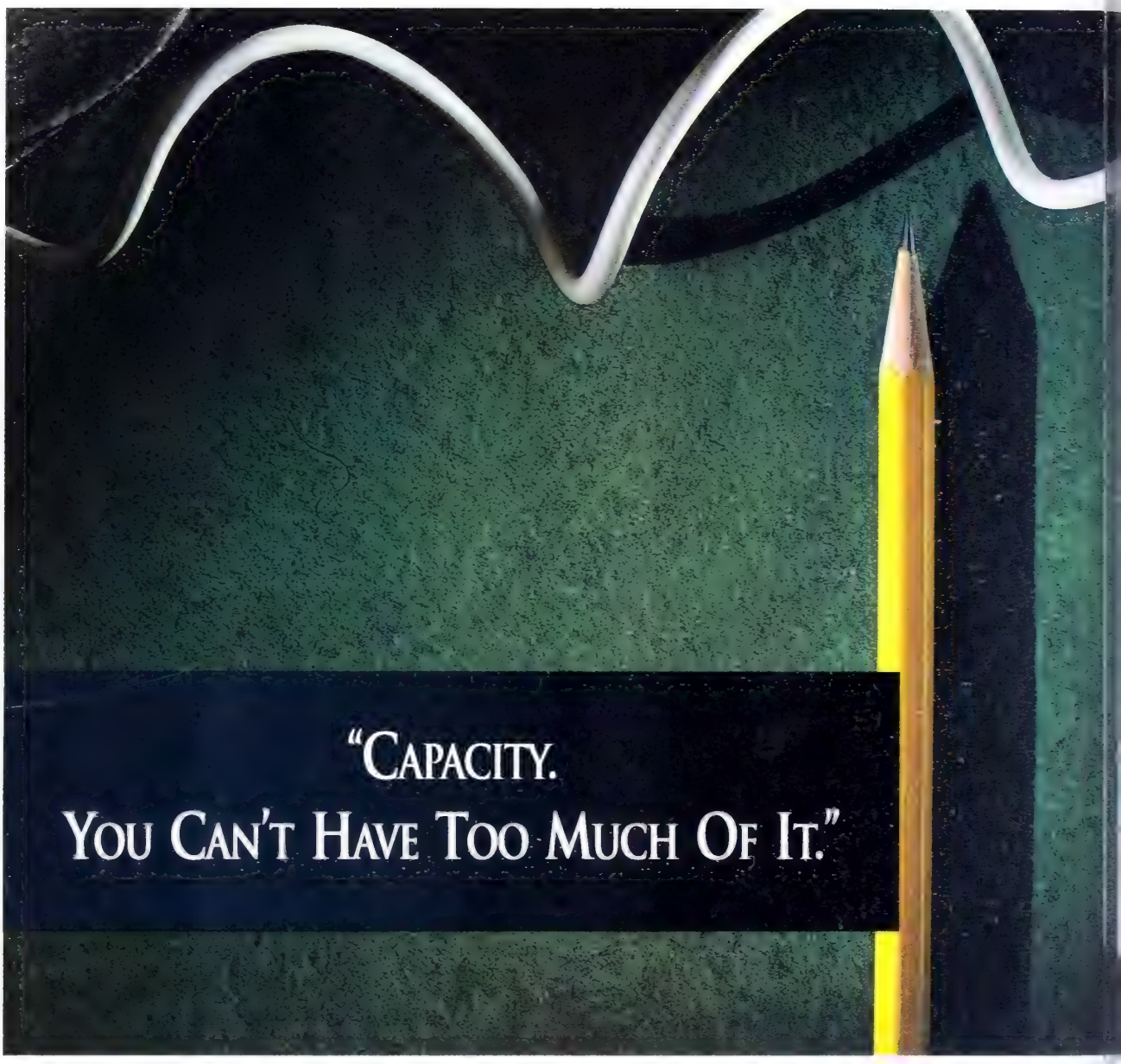
HOW A BABY BELL BECAME A CABLE-TV STAR

WHY JOHN MALONE DECIDED TO SELL

MEDIA MANIA: WHAT'S NEXT

Bell Atlantic's Raymond W. Smith

TCI's John C. Malone



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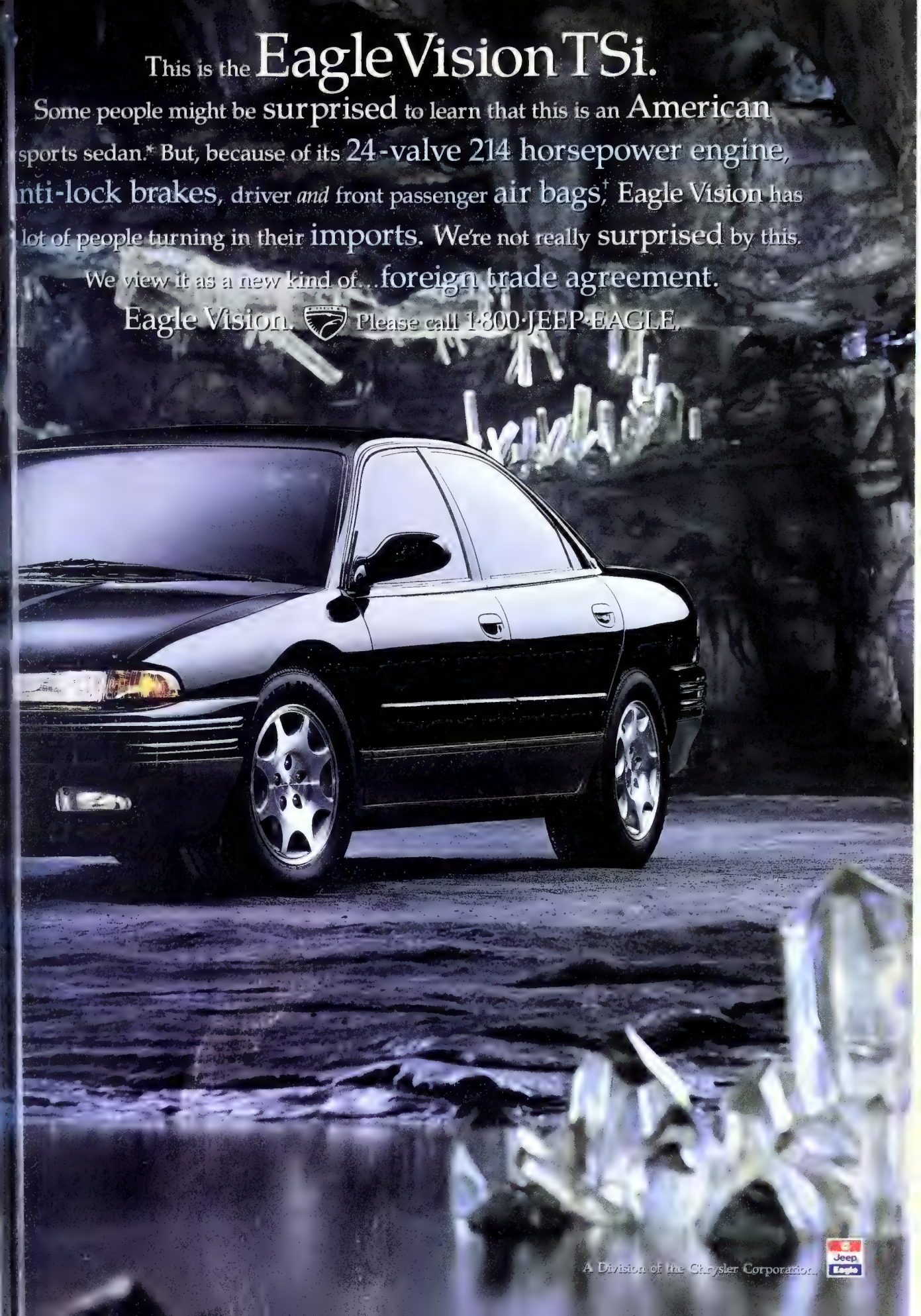
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Some people might be surprised to learn that this is an American sports sedan.* But, because of its 24-valve 214 horsepower engine, anti-lock brakes, driver *and* front passenger air bags†, Eagle Vision has a lot of people turning in their imports. We're not really surprised by this. We view it as a new kind of...foreign trade agreement.
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NUMBER 3342 BusinessWeek OCTOBER 2,

INFOFLASH: THE BELL ATLANTIC-TCI DEAL IS THE BOLDEST BET YET ON THE CONVERGENCE OF COMPUTERS, COMMUNICATIONS, AND MEDIA

COVER PHOTOGRAPHS (L TO R) BY DAVID HEINSOHN; JEFFREY AARONSON-NETWORK ASPEN PHOTOGRAPH ABOVE BY JON FEINGERSH THE STOCK MARKET

Cover Story

32 BELL-RINGER!
For those wondering when the concrete would be poured for the information superhighway, look no further. The marriage of Bell Atlantic and cable-TV operator Tele-Communications Inc. seems sure to produce a media colossus with major stakes in a staggering array of businesses—as well as a revolution in home entertainment and information

36 MALONE'S GREAT ESCAPE
Sure, it makes him a billionaire—but he says that's the least of it

37 SHARP OPERATOR
Bell Atlantic's Ray Smith is a visionary with a zest for risk

38 COMMENTARY
The Baby Bells' sibling rivalry turns into sibling warfare

39 IS PARAMOUNT QVC'S NOW?
The TCI-Bell Atlantic deal gives Barry Diller heavy financial ammo

Top of the News

42 BEHIND THE GREAT WALL
Washington and Beijing are quietly patching things up

44 LAW-AND-ORDER DEMOCRATS
From Clinton on down, they're getting tough on crime

45 COMMENTARY
Solid talk on deficit reduction? No, just blather

46 ALUMINUM EVERYWHERE
An avalanche of the metal from Russia gluts the market

48 COMMENTARY
Lost in the desert of economic theory

50 IN BUSINESS THIS WEEK
Wal-Mart, Sharper Image, minimum wage, Woolworth, Lilly, tobacco wars, Richard Braddock, CalPERS

International Business

54 CANADA
On election eve, it grapples with its economy—and its identity

56 COMMENTARY
Cracking Japan's markets: Witho targets, it's just talk

58 EUROPE
These recession-beaters could help turn Europe's economy around

60 INTERNATIONAL OUTLOOK
The growing might of the milit in Russia

Economic Analysis

20 ECONOMIC VIEWPOINT
Roberts: How much snake oil is the Clintons' health-care plan?

24 ECONOMIC TRENDS
California's impact on the U.S. economy, the champ of debts, boomers' pensions, corporate lo

29 BUSINESS OUTLOOK
An underwhelming pickup in jo

Government

53 WASHINGTON OUTLOOK
Senate Democrats: Clobbering Clinton with the suggestion bo

FAST AND LOOSE?
WHILE FERROFLUIDICS POSTED LOSSES OF $17.7 MILLION, CEO RONALD MOSKOWITZ AND HIS FAMILY WERE REAPING A FORTUNE

102 BUSINESS' NEW LESSON PLAN: COMPANIES ARE INSISTING THAT EXECUTIVE EDUCATION ACHIEVE SPECIFIC, REAL-WORLD GOALS—AND B-SCHOOLS ARE RESPONDING

128 WAY BEYOND FLOWER-ARRANGING: YURIKO KOIKE, 41, IS A TV JOURNALIST JUST ELECTED TO JAPAN'S DIET. AND LIKE OTHER YOUNG LEADERS, SHE SEEKS RADICAL REFORM

Science & Technology

DEVELOPMENTS TO WATCH
Helping oil-eaters float, clearer ultrasound, TV Teddy, cardio-vests, lasers for carpal-tunnel syndrome

GETTING THE LEAD OUT
Kessler promised to reshape the FDA. How's he doing?

Special Report

CLASSROOM CLOUT
Executive education is transforming company cultures

THE PROFESSOR IS IN
More companies are bringing teachers to the office

THE GLOBAL B-SCHOOL
Some have started exporting their executive MBA programs

Finance

PASS THE RUBBER STAMP
Ferrofluidics' board regularly O.K.'d the CEO's hefty compensation

WORKERS' COMP CAN WORK
Insurers are stressing safety, managing claims—and cutting costs

HOME SWEET CASH
Nontraditional investors are giving homebuilders a boost

INSIDE WALL STREET
Weinstein: Quick on the picks
Deep assets for an oil and gas play
Hitting the jackpot overseas?

INVESTMENT FIGURES OF THE WEEK

Legal Affairs

120 THE GUNS OF KMART
The retailer has often been cited for violating firearm-sale regulations

Information Processing

124 LAPTOPS GO CALLING
Technology is turning selling from a black art into a science

126 RACING TO REINVENT SOFTWARE
Again, the leader is Microsoft

126E BITS & BYTES
A computer channel, NAFTA, IBM, home-ed programs, musical software

120 WHO'S MINDING THE GUNS? A $12.5 MILLION DAMAGE AWARD TO DEBORAH KITCHEN IS ONLY ONE OF THE TROUBLES KMART IS HAVING AT ITS FIREARMS COUNTER

Social Issues

128 JAPAN'S BOOMERS TAKE OVER
The fortysomethings are armed with a powerful agenda for change

Industries

134 THE SOUL OF AN OLD MACHINE
An Indiana auto-parts plant tries to become a world-beater

Sports Business

141 SLAP SHOTS IN THE PARKING LOT
Roller hockey emerges as a pro sport

Personal Business

142 INVESTING: Screening stocks via PC
AUTOS: Brutes for the daring
SMART MONEY: Luxury-tax refund
FITNESS: Long-distance swim clubs

Features

6 UP FRONT
12 READERS REPORT
14 CORRECTIONS & CLARIFICATIONS
15 BOOKS
Swasy: *Soap Opera*
28A LETTER FROM SOUTH CAROLINA
149 BUSINESS WEEK INDEX
150 INDEX TO COMPANIES
152 EDITORIALS
Selling to the new global middle class
Help the FDA cut the fat
Canada's free-trade phobia

ek (ISSN 0007-7135) published weekly, except for one issue in January, by McGraw-Hill Inc. Executive, Editorial, Circulation, and Advertising Offices: 1221 Avenue of the Americas, New York, N. Y. 10020. ber rate: $46.95/year; Canada: CDN $69/year. Second-class postage paid at New York, N. Y., and at additional mailing offices. Postage paid at Montreal, P. Q. Canada Post International Publications Sales Agreement No. 246484. **Postmaster:** Send address changes to BUSINESS WEEK. P. O. Box 430, Hightstown, N. J. 08520.

Up Front

EDITED BY LARRY LIGHT AND JULIE TILSNER

SCULLEY: *On the way out?*

MIGRATIONS

THE NEW APPLE OF HIS EYE

John Sculley's days at Apple Computer seem numbered. He stepped down—some say involuntarily—as CEO last June, but has stayed in the less powerful chairman's job. He's been spending his time on the road, promoting Newton MessagePads.

Lately, however, he has shopped for office space in Greenwich, Conn., a continent away from Apple's Cupertino (Calif.) headquarters. And although Sculley insists he has no plans to leave, he speaks wistfully to BUSINESS WEEK of starting his own venture: "The one thing I've never done is be John Sculley the founder and entrepreneur." There are rumors he wants an entertainment or multimedia company, perhaps funded by a giant like Time Warner, though Sculley says he's made no decisions.

Sculley discounts other rumors that he might head Eastman Kodak, saying he has "no interest in a big company." But whatever company is involved, indications are it won't be Apple for too much longer. *Kathy Rebello* ■

MUFFLED MEDIA

DON'T READ ALL ABOUT IT

The Haft family feud has all the elements of a major best-seller. After all, there's sex and violence: Gloria Haft, the wife of silver-maned Herbert, accuses the Dart Group chairman of womanizing and physical abuse, both of which he denies. And there's major money at stake: Dart and the other Haft holdings are worth billions.

To top it off, there's a titanic corporate power struggle: Herbert ousted son Robert as Dart president, replacing him with another son, Ronald—and also kicked wife Gloria off the Dart board. Lawsuits are flying.

So it's hardly surprising that, after financial reporter Kara Swisher of *The Washington Post* did a two-part series on the clan of battling billionaires, book agents hustled to sign her up to pen the saga.

But don't necessarily count on seeing this juicy tale in your neighborhood bookstore anytime soon. Why not? Well, Dart Group, the holding company that is controlled by the Haft family, also happens to be the majority owner of Crown Books, the nation's third-largest book retailer. And you bet that's enough to make a lot of publishers

HAFT SHAFT: *Robert and Herbert*

"We've gotten a lot jections," sighs Swisher such letter from a majo lishing house said: "W nervous about the connection." Another pu er's letter said the p was "fraught with di ties," alluding to Her reputation for litigious Adds one top publishir ecutive, who asked not named: "Who needs headache?" Dart woul comment on the Haft proposal. *Mark Le*

TALK SHOW

You and I might like a trip to the stars, but if we can't pay for it, it's just talk, right?

— Ross Perot on the Clinton Administration's health-care plan

ENDANGERED SPECIES

AT&T TO NCR: R.I.P.

Say goodbye to the last vestige of NCR. When AT&T bought it two years ago, after a nasty fight, the telephone giant swore it would allow the computer maker to retain much of its independence—including its existing management, headquarters, and yes, brand name. And when AT&T folded its own troubled computer division into NCR, it allowed NCR executives to decide which of the parent company's products lived or died.

Yet many computer-industry analysts believe that NCR has not lived up to AT&T's expectations. So in March, installed its own hard-ing executive, Jerre Ste run NCR.

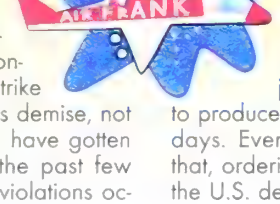
Here comes the final Now, NCR executives e AT&T to elim the venerable of the Dayton- company, whic gan life as Na Cash Register though the identity hasn't chosen, it's su contain the AT&T name.

An AT&T spokesman firms that this move is consideration. But he say a final decision won't be on the demise of NCR least a month. *Bart Zie*

REALITY CHECK

LORENZO-HATERS SAY Washington should squelch Frank Lorenzo's request to start a new cut-rate airline, ATX. Under pressure from unions and their congressional allies, the Transportation Dept. has put his application under highly unusual scrutiny.

The anti-Lorenzo crowd says he's not fit to run since the two lines he headed, Continental Eastern, went bankrupt—and Eastern is now funct. Plus, Eastern had safety probl that resulted in its paying a $9.5 mi federal fine.



IN REALITY, Lorenzo's past cost-cutting tiffs with labor are why he's getting this harsh treatment. Plus he's not the most personable fellow. But a self-defeating strike was the main reason for Eastern's demise, not Lorenzo. All carriers, not just his, have gotten whacked economically during the past few years. Many of Eastern's safety violations occurred before he bought i 1986. Last month, Lorenzo's plication was denied by a T portation Dept. administrative judge, displeased about his inab to produce 10,000 pages of documents in days. Even Transportation couldn't stom that, ordering a full hearing. And you thou the U.S. deregulated the airlines.

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en you're changing phone
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cern. But thanks to Fujitsu, we
erienced very little disruption."
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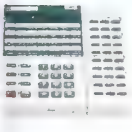

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Up Front

ALMS CONTROL

PATRON OF THE ARTHROPODS

The cash-strapped Smithsonian Institution has leaned increasingly on corporate sponsors in recent years. But the latest example of private-sector largess makes you squirm.

The O. Orkin Insect Zoo, the first permanent Smithsonian exhibit to bear a corporate name and logo, got $500,000 of its $750,000 cost from Orkin Pest Control. The zoo, named for company founder Otto Orkin, who died in 1968, aims to show us bugs in environments where we know them and love them. Uh-huh.

The previous zoo, which opened in 1976 and closed last fall, was just your basic collection of bugs in boxes. The new version has "natural habitats," such as a Brazilian rain forest and, yes, an urban kitchen. "Humans create the perfect year-round habitat for them," says Smithsonian spokeswoman Pamela Baker. "There's food, water, the perfect temperature, and wonderful places to nest."

This display includes such Orkin favorites as German cockroaches, silverfish, carpenter ants, and termites, represented by tiny lights because real bugs hide. Volunteers bring out actual insects for visitors to, ahem, pet. *Stephen H. Wildstrom* ■

AFTERLIVES

WHAT'S PORTUGUESE FOR 'ARB'?

Now that Ivan Boesky is back in the money, what's he doing with it? Studying foreign languages. Sporting his post-prison Howard Hughes look—shoulder-length white hair—the convicted inside trader spent the summer in Cannes, studying French.

BOESKY: [illegible]

Next, according to fellow students, the former arb wants to master Portuguese and Italian. Boesky, who claims the $100 million he paid in federal fines left him broke, owes his new life as an intellectual dilettante to the $20 million divorce settlement he reached in June with ex-wife Seema.

The four-week course at the College Internationale de Cannes, located 50 yards from the beach, isn't blow-away expensive, but it's not cheap either. The 56-year-old former financier, who classmates say lived off-campus with a girlfriend, paid $700 as a nonboarder. Fellow students say he was deeply tanned and knew all the night spots.

Still, he pulled down a B+ average, according to the school. Since he had previous training in French, he got into one of the higher-level classes.

While Boesky used his own name, he wasn't happy when students recognized him. Then, says one, Rebecca Reed, he would scowl and respond: "No comment." The few times he did chat, it was about such pursuits as jogging. Not a word about business though, in French or English. *Charles Hoots* ■

DRAWN AND QUARTERED

INFLUENCE PEDDLERS

EXILE ON K STREET

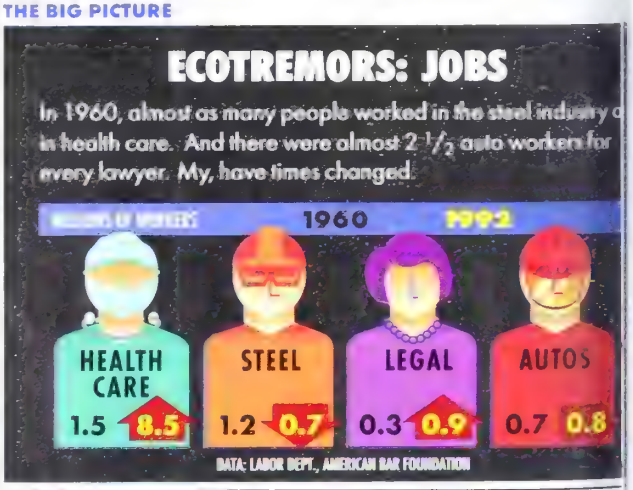
Gucci Gulch may soon see fewer loafers. Once, all a trade group needed to impress its members was to hire a few Capitol Hill insiders at huge salaries and let them wine and dine lawmakers. No more: The Clinton budget removes most of the deduction for membership dues—and the fiscal incentive for businesses to join.

CAPITOL LOSS: [illegible]

So the K Street band i- der heavy pressure to ~ results. "Things are goin be different," says James ton, deputy executive dire of the National Society of fessional Engineers. Dalton apostle of the quality man ment dogma popular in porate America, is show other groups how to do th they slighted before. At Valve Manufacturers As for instance, staffers comp against their previous ye performance by trying to the number of phone que they can't answer.

There's a long way to though. Dalton's group lished a national member directory last year, but s members complained it rived too late. So this y he improved delivery t by six weeks. Unfortunat Dalton learned from a that most members ne wanted a directory in the place. *Douglas R. Harbrec*

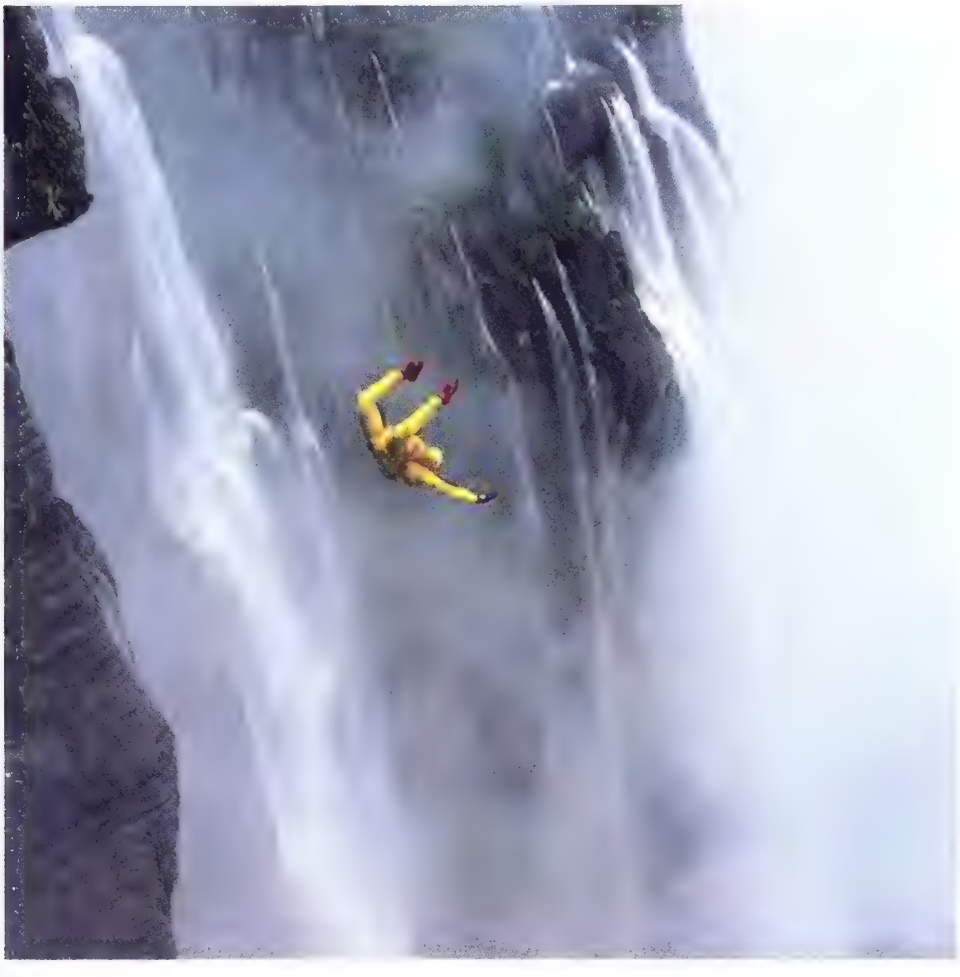
THE BIG PICTURE



FOOTNOTES

[illegible] lence index: **77** in January, **63** in September. 1993 layoffs announced: **31,213** in January, **105,353** in Septem

Assume this is a business risk worth taking.



First, let's discuss parachutes.

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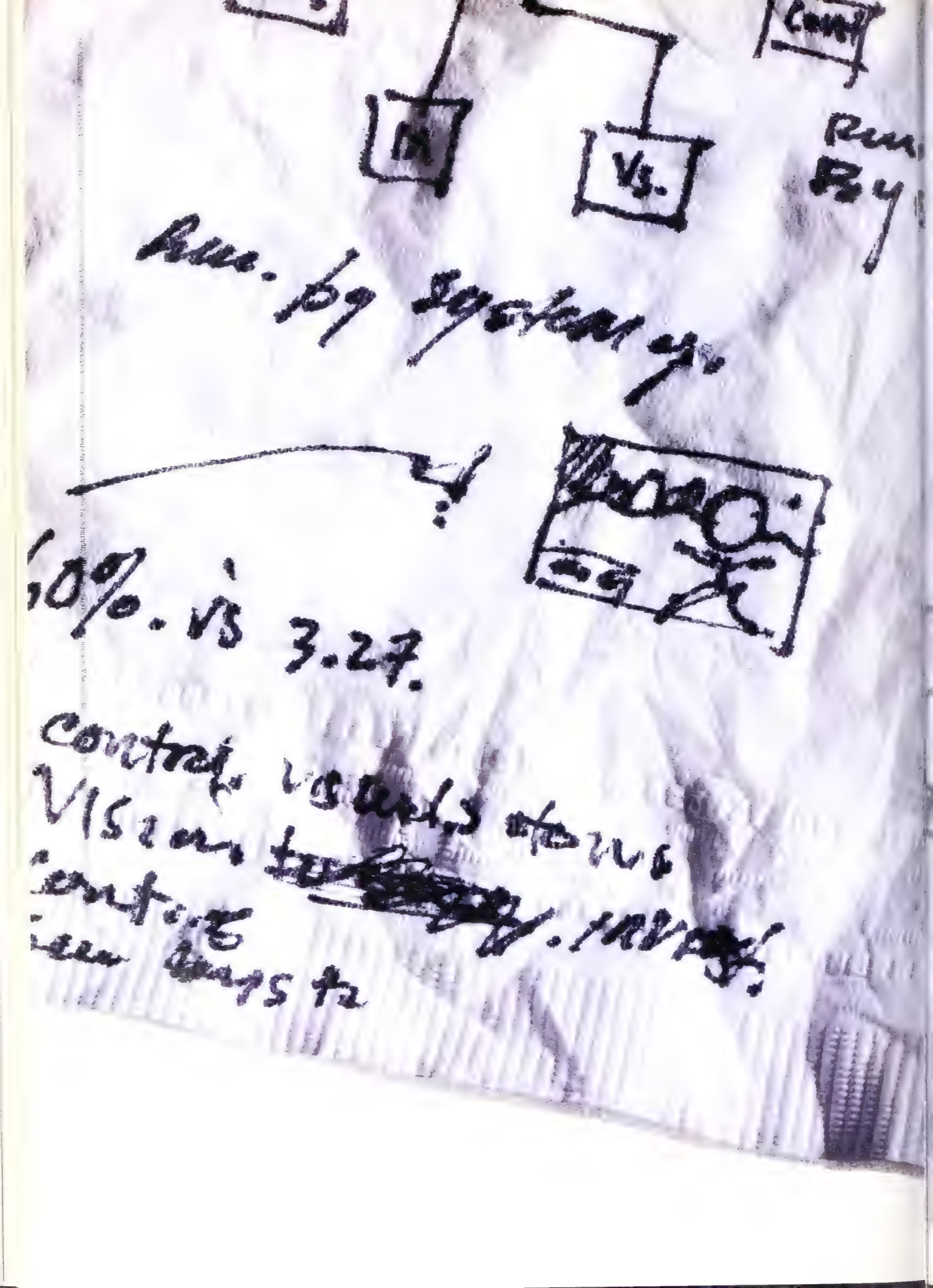
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FOR WINDOWS

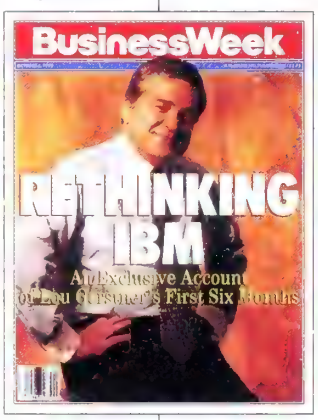
Readers Report

THOUGHTS FOR CHAIRMAN GERSTNER

No one doubts the enormous challenge and urgency that IBM faces in correcting its past errors and forging a path to success once again ("Rethinking IBM," Cover Story, Oct. 4). However, it is important to note that Lou Gerstner is not the only player in this transformation: Tens of thousands of IBM employees have to row the Big Blue boat forward, too. Hence, a unifying vision is critical, even if it means restating elements that have spelled success for IBM for decades and adding a few others that stress currently desired values. Here is a sample that just might work:

"IBM will build on its strengths in technology, creativity, global presence, and customer relationship to be the premier advanced-technology company in creating and delivering computing and information-processing solutions to individuals, businesses, nonprofit organizations, and governments worldwide."

Suri Bhagavatula
Stamford, Conn.



After 26 great years with IBM, I called it quits in July, 1992, and started a property-management company. There is life after IBM, as I and other past IBMers can attest.

During the 1960s and '70s, IBM employees were like a great team of horses pulling in one direction. That was because those who held the reins had a vision. They also had only one primary product to haul: mainframes—specifically the 360/370/380 lines. Times have changed, products have changed, and so must the vision, the direction.

Lou Gerstner should understand that he needs a vision that can be articulated to everyone (both in and outside IBM)—even if it's just: "Our mission is to be the most successful information-technology company in the world."

Ira Gross
Boca Raton, Fla.

When a company has a visio can justify layoffs of emplo who do not fit into that vision. B company cannot build up to 400,00 ployees and then let financial re neering dictate that it can make do only 300,000 in the next couple of y I would imagine that if its manage envisioned the need for a skill which, when summed up, amounte say, 325,000 employees, then the co ny would be better off in the long keeping the additional 25,000. It app to me that Corporate America is ge ally going crazy over paring costs.

Jack Nargun
San D

I would like to point to Lou Gerstner IBM's problems ma more fundamental he thinks. As a for IBM marketing repre tative with 11 ye experience, every I would ask my ma ger the following t questions:

Who are my custo

What do you want to sell?

How will I be paid

My first-, second-, third-line managers d have the answers.

Shawn B. C
Ridgefield, C

I was eager to read your story. Bu ter looking at the first three pictu I dropped it in dismay. They s Gerstner wearing the shirt equiva of checkered pants, descending from IBM Gulfstream, and stepping ou what looks like a chauffeured limous

The pictures convey the strong r sage that the same mentality t wrecked the company is still in cha

Claudio Bal
M

When the chairmen of Boeing Ford commented on how de dent their companies are on a si computer vendor, I wondered if t were listening to themselves. I also w

BUSINESS WEEK
OCTOBER 25, 1993 * * * 3343
ISSN 0007-7135

Published weekly, [illegible] by McGraw-Hill, Inc. Founder: James H. McGraw (1860-1948)

[illegible] McGraw-Hill Building, 1221 Avenue of the Americas, New York, N.Y. 10020. [illegible]

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Your symptoms are bothering you, but you're still waiting to see your doctor about our enlarged prostate. Maybe it's time to stop waiting.

Ask your doctor about the prescription medicine PROSCAR®.

(FINASTERIDE)

Finally, a medicine for the treatment of symptomatic benign prostate enlargement

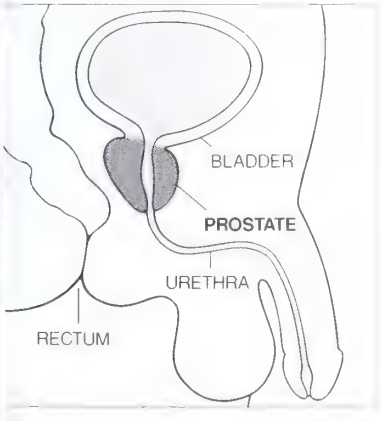
ı can't make it till halftime anyre without having to go to the hroom. You're getting up several es a night to urinate. It's beging to bother you, but up to now, 've lived with it. The question is, uld you?

til recently, there wasn't a licine that could help the condition own as symptomatic benign state enlargement or BPH. But v there is PROSCAR, the first oral scription medicine that can actualhrink an enlarged prostate.

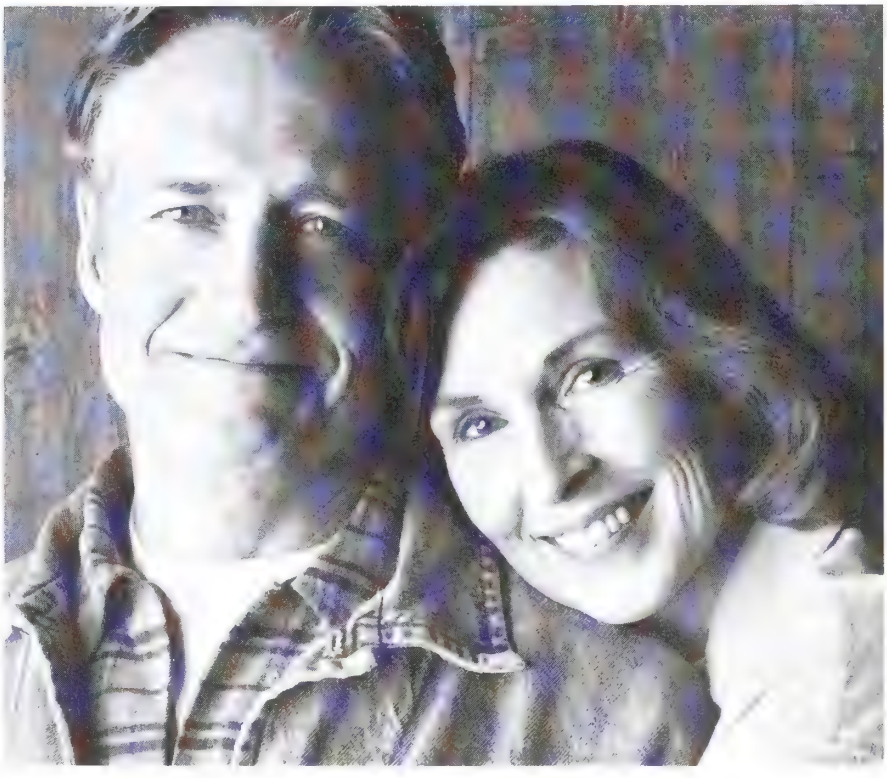
vever, it is important to know the owing: PROSCAR doesn't work for yone. Even though the prostate nks, you may not see an improvet in urinary flow or symptoms. ! you may need to take PROSCAR for onths or more to see whether it s you.

ow PROSCAR can shrink an enlarged prostate

ı man ages, a key hormone can o cause the prostate to grow.



ostate surrounds part of the urethra, the tube that urine from the bladder. As the prostate enlarges, it eeze the urethra and cause urinary problems.



PROSCAR actually blocks the production of this hormone, so it helps shrink the prostate to a smaller size in many men. As a result, some men treated with PROSCAR experience an increased urinary flow and an improvement in urinary symptoms.

Why you should see your doctor soon

The problem will probably not get better by itself. In many cases, the prostate continues to enlarge and the symptoms may get worse. So if your urinary symptoms are bothering you, consult your family doctor or a urologist and find out if PROSCAR is an appropriate treatment for you. It is also important to have regular checkups. *While benign prostate enlargement is not cancer and does not lead to cancer, the two conditions can exist at the same time.*

Remember, only a doctor can evaluate your symptoms and their possible causes. So don't wait any longer. You may find out that your enlarged prostate can be made into a smaller problem.

For a free, informative booklet, "Every man should know about his prostate," call 1-800-635-4452 today.

TABLETS

PROSCAR® 5mg

(FINASTERIDE)

Please see patient information on the adjacent page.

MERCK

PATIENT INFORMATION ABOUT
PROSCAR (Prahs-car)
Generic name: finasteride (fin-AS-tur-eyed)

PROSCAR is for the treatment of symptomatic benign prostatic hyperplasia and for use by men only.

Your doctor may prescribe PROSCAR if you have a medical condition called benign prostatic hyperplasia or BPH. This occurs only in men.

Please read this information, as well as the leaflet which accompanies your medication, before you start taking PROSCAR. Also, read the leaflet each time you renew your prescription, just in case anything has changed. Remember, this leaflet does not take the place of careful discussions with your doctor. You and your doctor should discuss PROSCAR when you start taking your medication and at regular checkups.

What is BPH?

BPH is an enlargement of the prostate gland. After age 50, most men develop enlarged prostates. The prostate is located below the bladder. As the prostate enlarges, it may slowly restrict the flow of urine. This can lead to symptoms such as:

- a weak or interrupted urinary stream
- a feeling that you cannot empty your bladder completely
- a feeling of delay or hesitation when you start to urinate
- a need to urinate often, especially at night
- a feeling that you must urinate right away.

Treatment options for BPH

There are three main treatment options for BPH:

- **Program of monitoring or "Watchful Waiting".** If a man has an enlarged prostate gland and no symptoms or if his symptoms do not bother him, he and his doctor may decide on a program of monitoring which would include regular checkups, instead of medication or surgery.
- **Medication.** Your doctor may prescribe PROSCAR for BPH. See **"What PROSCAR does"** below.
- **Surgery.** Some patients may need surgery. Your doctor can describe several different surgical procedures for BPH. Which procedure is best depends on your symptoms and medical condition.

What PROSCAR does

PROSCAR lowers levels of a key hormone called DHT (dihydrotestosterone), which is a major cause of prostate growth. Lowering DHT leads to shrinkage of the enlarged prostate gland in most men. This can lead to gradual improvement in urine flow and symptoms over the next several months. However, since each case of BPH is different, you should know that:

- Even though the prostate shrinks, you may NOT see an improvement in urine flow or symptoms.
- You may need to take PROSCAR for six (6) months or more to see whether it helps you.
- Even though you take PROSCAR and it may help you, it is not known whether PROSCAR reduces the need for surgery.

What you need to know while taking PROSCAR

- **You must see your doctor regularly.** While taking PROSCAR, you must have regular checkups. Follow your doctor's advice about when to have these checkups.
- **About side effects.** Like all prescription drugs, PROSCAR may cause side effects. Side effects due to PROSCAR may include impotence (or inability to have an erection) and less desire for sex. Each of these side effects occurred in less than 4% of patients in clinical studies. In some cases side effects went away while the patient continued to take PROSCAR.

Some men taking PROSCAR (Finasteride) may have a decrease in the amount of semen released during sex. This decrease does not appear to interfere with normal sexual function.

You should discuss side effects with your doctor before taking PROSCAR and anytime you think you are having a side effect.

- **Checking for prostate cancer.** Your doctor has prescribed PROSCAR for symptomatic BPH and not for cancer—but a man can have BPH and prostate cancer at the same time. Doctors usually recommend that men be checked for prostate cancer once a year when they turn 50 (or 40 if a family member has had prostate cancer). These checks should continue while you take PROSCAR. PROSCAR is not a treatment for prostate cancer.
- **About prostate specific antigen (PSA).** Your doctor may have done a blood test called PSA. PROSCAR can alter PSA values. For more information, talk to your doctor.
- **A warning about PROSCAR and pregnancy.**

PROSCAR is for use by MEN only.

PROSCAR is generally well tolerated in men. However, women who are pregnant, or women who could become pregnant, should avoid the active ingredient in PROSCAR.

If the active ingredient is absorbed by a woman who is pregnant with a male baby, it may cause the male baby to be born with abnormalities of the sex organs. Therefore, any woman who is pregnant or who could become pregnant must not come into direct contact with the active ingredient in PROSCAR.

Two of the ways in which a woman might absorb the active ingredient in PROSCAR are:

Sexual contact. Your semen may contain a small amount of the active ingredient of the drug. If your partner is pregnant, or if you and your partner decide to have a baby, you must stop taking PROSCAR and talk to your doctor. If your partner could become pregnant, proper use of a condom can reduce the risk of exposing her to your semen (discuss this further with your doctor).

Handling broken tablets. Women who are pregnant or who could become pregnant must not handle broken tablets of PROSCAR.

PROSCAR tablets are coated to prevent contact with the active ingredient during normal handling. If this coating is broken, the tablets should not be handled by women who are pregnant or who could become pregnant.

If a woman who is pregnant comes into contact with the active ingredient in PROSCAR, a doctor should be consulted. Remember, these warnings apply only if the woman exposed to PROSCAR is pregnant or could become pregnant.

How to take PROSCAR

Follow your doctor's advice about how to take PROSCAR. You must take it every day. You may take it with or between meals. To avoid forgetting to take PROSCAR, it may be helpful to take it the same time every day.

Do not share PROSCAR with anyone else; it was prescribed only for you.

Keep PROSCAR and all medicines out of the reach of children.

FOR MORE INFORMATION ABOUT PROSCAR AND BPH, TALK WITH YOUR DOCTOR. IN ADDITION, TALK TO YOUR PHARMACIST OR OTHER HEALTH CARE PROVIDER.

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Readers Repo

CORRECTIONS & CLARIFICATIO

"The Global Investor" (Cover S Oct. 11) should have given the demic affiliation of Ingrid M. W as assistant professor at Stanford versity's Graduate School of Busi

der if the shareholders of Boeing, and dozens of other companies a tening. Betting the company on th tunes of one outside supplier is w of severe scrutiny. It seems to m America's ability to compete in tionally is best served by healthy c tition. Good riddance to the axiom one was ever fired for buying IBM

Paul J. H
Santa Clara,

I take one great exception to your cle. In today's world, great man must understand the family nee their employees. You make the cas Gerstner is a family man and tha colleagues admire his "devotion t family." Later on, you write tha works "6½-day weeks, 16-to-18 days." He is praised for taking home every night. How does this understand family needs if he's at home? IBM can succeed only i ployees are motivated and under by their management. In my mind, ily is a large element in most emplo motivation equation.

Bruce C. D
So

Regarding IBM's corporate lex it's no wonder they're in such ble. While it may seem the perve of the English language through th of nonsensical idioms and "verbin a minor issue, it strikes me as a bling symptom in a company whose jor business is accurately and cl transferring and disseminating com information.

Perhaps IBM's problems stem the fact that employees can't even municate with each other, let alone municate clearly with a customer. G ner would do well to have all his "h and "one performers" "reswizzle" knowledge of English. Any supplier wants to "talk to the foils" about proving my "keyboarding" skills not represent an organization I wa do business with.

James A. Kind
Canton, M

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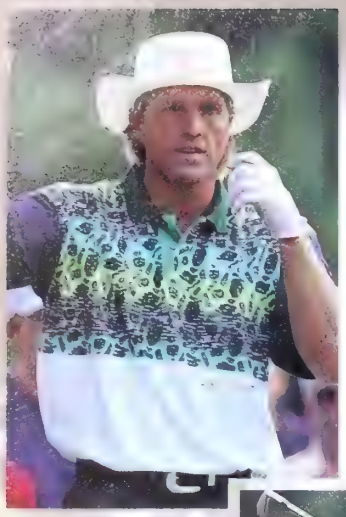
GREG NORMAN



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It's all about working together. Teleglobe sets itself apart by working with leading manufacturers of bridges and routers to ensure flawless compatibility. And their reputation for reliability and outstanding support make them a leader in their own right.

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es Books • 378pp • $24

ISHING THE DIRT N THE KING OF SOAP

Alecia Swasy has a chip on her shoulder. So would you, if you had experienced what she has. orting on consumer-products giant cter & Gamble Co. for *The Wall et Journal* in 1991, Swasy turned up e company secrets, such as the im- ding exit of a top executive. Her dis- eries enraged CEO Edwin L. Artzt. subsequently helped get a grand investigation going that led to a ch of hundreds of thousands of Cin- ati residents' phone records in a vain mpt to identify Swasy's source.

ow, Swasy has writ- what she calls P&G's ide story." Unfortu- ly, as you might ex- , *Soap Opera* is a diced tale. It's as if sy spent a year dig- up every smidgen of she could, then un- ed it all. Even P&G tices that many ld view as positives come across as ob- ive and outlandish. le I'm glad I don't t at a place that col- used underwear to k out toilet tissue, methods seem more cal than anything Swasy's intensive re- h has also turned up a plethora of tawdry incidents, such as a prosti- n ring allegedly run by some em- ees out of a P&G lab. That's shock- but, like many other details, it s to be included just because Swa- und out about it.

l this makes *Soap Opera* easy to iss. And that's regrettable, because y has also done a fine job of explor- he secretive Procter world, where le are told not to work on airplanes ear others will see what they're do- nd, Swasy reports, P&G security ls once went over the notes of a re- r who had gotten into headquar- and interviewed employees about orange-and-black Cincinnati Ben- displays. Although a profusion of otes and P&G denials make for some n going, Swasy has captured colorful l about the company that invented otion of "morning breath" and made paranoia about spotty dishes and dandruff commonplace. Those campaigns turned Scope, Cascade, and Head & Shoulders into leading brands, but the impact on the national mind-set may not have been quite so positive.

P&G has called Swasy's portrayal "one-sided" and "inaccurate." The sheer accumulation of incidents, however, suggests that P&G indeed indulges in some questionable practices. The company seems willing to go to almost any length to silence opponents, for example. It sued three diaper services and a small Cleveland ad agency, claiming they spread disinformation to hurt sales of P&G diapers, Swasy notes. It canceled advertising on a Boston TV station that aired a commercial that urged viewers to boycott Folgers coffee. P&G invades its employees' privacy by monitoring phone conversations, Swasy says. And when its paper mill polluted a river in Florida, P&G disputed evidence that there was a ground-water contamination problem, even as it told its managers to use bottled water. In addition, Swasy claims the company has muzzled critics on sensitive issues by paying for scientific research. That's what she says P&G did with toxic shock syndrome after its Rely tampons were linked to the disease, ultimately leading to their recall.

Swasy's tendency to overstate her case is one reason P&G's directors aren't likely to take her book to heart. If they do, though, they should ask whether the practices she cites are inherent in the company's 156-year-old culture or whether they're mainly the work of recent management, including 1980s chief John G. Smale and especially Artzt. Swasy suggests both at various points, but the way she blends incidents across decades makes it hard to know for sure. For instance, she quotes former Vice-President Charles Jarvie, who left in 1979, as if he were talking about recent or current times.

What's most disappointing about *Soap Opera*, though, is Swasy's failure to give her reporting some context and greater meaning. P&Gers don't need to be told that Artzt keeps three copies of *Leadership Secrets of Attila the Hun* in his office to know he's a tough, even brutal manager. Swasy could be right that his warlike attitudes undercut P&G's ability to keep good managers and work effectively with customers. The larger question is: Will the lean-and-mean approach so fashionable today hurt companies in the long run?

For that matter, how widespread is the kind of misconduct Swasy accuses Procter of? She raises serious questions about whether P&G acted fast enough in warning women about toxic shock. That's a significant charge, which contravenes company lore—that the 1980 Rely recall was P&G "doing the right thing" regardless of the financial consequences. Since then, we've become more inured to stories about corporations covering up flaws in products, from heart valves to breast implants. If P&G acted badly, it's hardly alone.

But unlike such fallen idols as General Motors and IBM, Procter is still very successful. True, its dominance in some U. S. businesses, such as diapers, has eroded, and it's facing a major challenge now, as more consumers decide that premium brands aren't necessarily much better than lower-priced products. But in the late '80s, after its first profit decline in decades, P&G staged a major comeback—based on successful expansion abroad, acquisitions, and product innovations. Just since 1989, it has boosted foreign sales by more than $7 billion. It's entirely possible the company will do less well in the future, but Swasy inaccurately presents it as being on a long slide. Elsewhere, she suggests that Procter's solid financial returns have masked the misconduct she alleges,

In Swasy's telling, even P&G practices that many would view as positives come across as outlandish

a point that seems closer to the m
Ironically, Swasy herself seem
have become enamored of at least ce
P&G's methods. She reveals that, to
her find out what people wante
know about the company, a former
told conducted a focus group. No
could be more Procter-like than th
BY ZACHARY SCH
*Cleveland Bureau manager Schille
reported on P&G since 1980.*

BOOK BRIEFS

MILES AWAY: A WALK ACROSS FRANC
By Miles Morland
Random House • 238pp • $21

TAKING FRENCH LEAV

Ever dream about throwing ove
old life and trying something
tirely different? Miles Morland
mer head of First Boston's Londo
fice, did just that when, to the sur
of his superiors in New York, he ab
ly quit in 1989. Friends and colle
were even more astonished by
Morland and his French-born wife,
laine, did next: To escape their
sured existence, they hiked a
France at the foot of the Pyrenees,
the Mediterranean to the Atlantic.

Morland crafts an enjoyable, ofte
larious travelogue out of the previo
sedentary fortysomething couple's
mile trek. Its title aside, *Miles A*
suffers from little of the cuteness
afflicts the raft of Franceploitation b
and articles that have appeared
Peter Mayle's *A Year in Provenc*
came a long-running best-seller.
land intersperses episodes from
monthlong walk with flashbacks
his frantic career "shouting down
phone" in brokerage houses and
his often-tempestuous marriage. (He
Guislaine had divorced but rema
shortly before starting their walk.)

Morland has an eye for detail a
way with anecdotes, so his accou
the trip alone is well worth the b
price. There are plenty of the usua
ers' adventures: inedible food, att
by dogs and even a swan, lamentab
accurate maps, and run-ins with
hotel personnel. But what gives the
resonance is the way the couple qu
rebuild their relationship, as Mor
learns to keep his domineering pers
ity in check and begins to see his g
wife with fresh eyes. Miles and
laine, both now writers living
houseboat in London, emerge as ch
ing and likable companions. That m
sharing their journey—across France
to a new life—a pleasure.
BY THANE PETER

THE NIGHTLY BUSINESS REPORT

SPECIAL INTERVIEWS

From The 1993 BusinessWeek Forum of Chief Executive Officers

REINVENTING AMERICA

Linda O'Bryon, Executive Editor of **The Nightly Business Report,** will interview leading executives representing some of America's major corporations on such vital issues as:

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- **The Sluggish Economy**
- **Restructuring for Growth**
- **Managing Change**

Making $ense of It All

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Edgar I. Green,
Vice-President and
Worldwide General Manager,
Office Imaging,
Eastman Kodak Company

ISDOM

YS WE WORK IN AN EITHER/OR WORLD.

NVENTIONAL WISDOM IS WRONG.

Edgar J. Greco on the future of document imaging.

We can no longer think of paper, film, or digital technologies as separate document imaging platforms. They need to be seamlessly integrated. The key word is harmony. As we experience the shift from mainframe to desktop, the flow of information moves closer to the people who need it most. Effective decentralization will require a strong central hub and fully networked spokes. So that everyone can access a variety of images that help translate information into knowledge. For peak productivity, both the hub and spokes need to communicate. This gives each individual or work group the power to access information rapidly and effect change more quickly. For this reason, we're developing document imaging solutions that are truly multimedia. Each Kodak Office Imaging Product—from a single copier, printer, or microfilmer to scanners, optical disk libraries, and writable CD—must be compatible. Each must enable migration to future technologies. And allow the free exchange of images between one platform and another. No one company can be all things to all people. We have forged strategic alliances with other leading organizations to enable you to make a better choice among an even broader set of products and services. We listen to our customers and are dedicated to providing solutions that help people work more productively. We are committed to document imaging. Managing image-intensive information is our heritage. It is our future.

Kodak Office Imaging. Harmony at work.

HEALTH-CARE REFORM: HAVE THE CLINTONS BEEN RETOUCHING THE X-RAYS?

BY PAUL CRAIG ROBERTS

Misinformation has characterized the debate and will continue to do so. What the White House says doesn't jibe with the outline submitted to Congress

PAUL CRAIG ROBERTS IS CHAIRMAN OF THE INSTITUTE FOR POLITICAL ECONOMY IN WASHINGTON

Once again, Americans are being sold a bill of goods by politicians. By collectivizing the delivery of health services, they are promising more care at a lower cost with no decline in quality. Before buying this fantasy, consider the four essential facts of health-care reform:

Clinton's plan amounts to a gigantic new entitlement with no credible means of financing, at a time of swollen budget deficits.

Once a plan is enacted, there will be no going back. Medical institutions will be permanently altered, and we will be saddled with a new health entitlement three times as large as Social Security and five times as large as Medicare. At a minimum, this entitlement will use up 17.2% of gross domestic product.

Financing will have to be found for the new entitlement. A payroll tax would take a big toll on employment. The remaining source of untapped private wealth is pension funds. Assistant Treasury Secretary Alicia H. Munnell has a plan ready that will end the tax deductibility of pension contributions and the tax deferral of pension fund earnings.

Misinformation, not full disclosure, will characterize the debate on health-care reform. The First Lady and President Clinton have set the tone by fanning insecurity while appealing to conscience with stories of the uninsured that pull at the heartstrings. Who can oppose a universal system that would cost less (without price controls or decline in access and quality) while maintaining consumer choice and fee-for-service insurance plans?

CRIMES OF THE HEART. But what the First Lady and the President are telling us about their health-care plan doesn't jibe with the contents of the 239-page document they have submitted to Congress. The Clintons argue that current health spending—at 14% of GDP—is too high, and that there are savings galore with which to provide universal care and cut the federal budget deficit. However, tables in the Clintons' plan show costs jumping to 17% of GDP by 1996, a figure many experts regard as understated.

The plan is coercive and undercuts choice in many ways. It requires most Americans to buy coverage through regional monopolies known as health alliances. The federal government is to set ceilings on how much each alliance can spend. The goal is to cap the health-care demand of those who are deemed to have too much access in order to free up supply for those who are currently deemed to have too little. The plan mandates "care based only on differences of need."

Moreover, no alliance can offer a plan that costs 20% more than the average price [illegible] plans within the alliance. This rule, toge[illegible] with the spending ceilings, may preclude [illegible] for-service plans that allow patients to ch[illegible] their doctors and medical services. Budge[illegible] pressures and penalties for exceeding li[illegible] will push alliances to choose plans on [illegible] not quality.

A principal source of the claimed sa[illegible] comes from "gatekeepers" who are em[illegible] ered to limit patient access to expensive [illegible] ical specialists. The plan calls for "new cri[illegible] penalties" for "the payment of bribes or g[illegible] ities to influence the delivery of health se[illegible] es and coverage." Whether this would ap[illegible] someone determined to disentangle a [illegible] spouse, or parent from red tape within [illegible] plan would presumably be determined b[illegible] enforcement bureaucrat.

GEOGRAPHIC ROULETTE. The new criminal [illegible] alties suggest that the plan's architects [illegible] that not all will be well with their scher[illegible] redistribute health care. The one-size-fi[illegible] benefits package burdens every consumer [illegible] premiums covering services—such as al[illegible] and drug rehabilitation and abortion—tha[illegible] atively few will use, while making other [illegible] ments more difficult to obtain. In add[illegible] the reform requires that every health [illegible] offered by an alliance accept every applica[illegible] the same premium, regardless of age, [illegible] style, and preexisting conditions.

To complete the redistribution, the [illegible] forces high-income areas to subsidize the [illegible] of low-income groups. It specifies that in[illegible] ting up plan regions, states "may not s[illegible] vide a primary metropolitan statistical [illegible] A region that comprises an inner city [illegible] the surrounding suburbs "is presumed to [illegible] compliance."

In short, the homeless, the AIDS-infe[illegible] and babies born to drug addicts will dri[illegible] the premiums paid by employers and e[illegible] dents of regions containing inner cities. [illegible] will affect property values and business [illegible] tion decisions.

This isn't the half of it. Meanwhile t[illegible] Clintons claim that they can pay for re[illegible] with budget savings and new tax reve[illegible] They envisage $238 billion in Medicare a[illegible] Medicaid cutbacks—but simultaneously, t[illegible] plan adds $152 billion in new prescription [illegible] and long-term health-care programs. They a[illegible] foresee $47 billion in "other federal pro[illegible] savings," $105 billion in new sin taxes a[illegible] $51 billion in new income taxes on proj[illegible] higher wages that employers can pay [illegible] health insurance doesn't cost so much. [illegible] ously, this is no financing at all, so say [illegible] bye to your pension.

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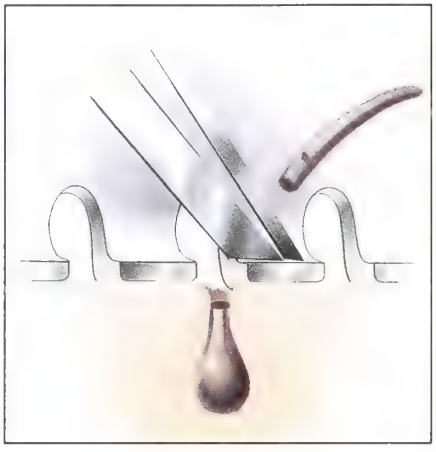

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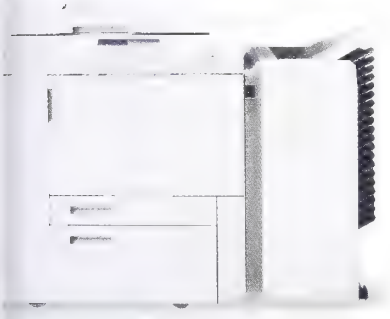

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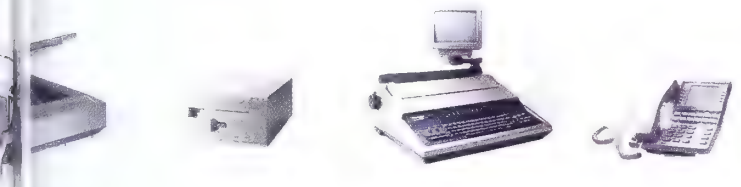

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Panasonic
Office Automation

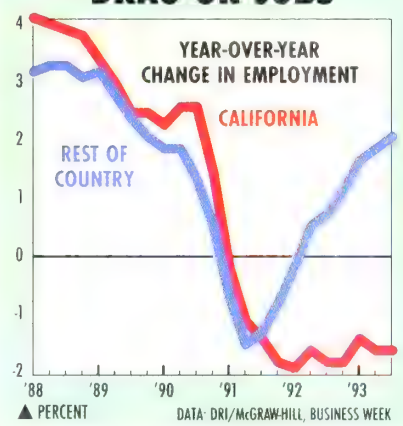
BY CHRISTOPHER FARRELL

CALIFORNIA MAY BE CASTING A SHADOW OVER THE U.S. ECONOMY

Since the recession ended some 30 months or so ago, one question has obsessed economists and bewildered policymakers: Why won't the economy grow faster? Two oft-mentioned culprits: brutal corporate restructurings and slowing federal spending. But now, some economists are pinning more of the blame on the California slump. "If California isn't doing well or is in recession, that goes a long way toward explaining why the national economy won't pick up," says Mark Zandi, economist at Regional Financial Associates Inc.

Take jobs. Excluding the Golden State, employment is up by 2% year-over-year. But California is down by a crushing 1.6%, pulling down the rest of the economy (chart). Indeed, at this point in past turns of the business cycle, California would have added 1 million jobs rather than lose more than half a million, says RFA's Zandi. Look also at housing: Over the past year, housing permits are up 22.7% for the country as a whole but down 10.9% in California.

THE GOLDEN STATE'S DRAG ON JOBS



It's hardly surprising that California's slump would have such a powerful impact on the national economy. The Golden State accounts for about 12% of the nation's gross domestic product, and it's the country's most populous state, with some 30 million residents.

The state's recession has been led by the defense-driven devastation of its aerospace industry and manufacturing sector. Declines in home prices and weak ...ial-construction markets are further exacerbating the downturn. Right now, no region of the state is showing job growth, and nonfarm incomes have fallen by 0.2% from the first quarter of last year, after adjusting for inflation. Net migration from the rest of the country into California has swung from a positive 207,000 in fiscal 1989-90 to a negative 150,000 in fiscal 1992-93, says David Hensley, economist at Salomon Brothers Inc.

When will the California economy pick up a head of steam? Hensley believes it may happen by spring of next year, perhaps earlier if the defense meltdown abruptly cools off. Yet even when California leaves its recession behind, RFA's Zandi believes that its long-term problems, such as the high cost of working and living in the state, will constrain growth through the rest of the decade—a hindrance to more rapid economic growth elsewhere in the economy.

WHEN IT COMES TO DEBT, THE U.S. IS THE UNDISPUTED CHAMP

With all the talk about globalization of the bond market, it's important to note that the U. S. is still the world's premier issuer of debt. The U. S. economy represents about one-third of the GDP of the industrialized nations, but dollar-denominated bonds accounted for a 46.5% share of the $14.8 trillion publicly issued bonds outstanding in 21 major bond markets, according to Rosario Benavides, analyst at Salomon Brothers Inc. The U. S. share was 2.6 times bigger than the second-largest bond market, the Japanese yen market (17.6%). The third-biggest market was Germany, with a 9.5% share.

WILL RETIRING BOOMERS SINK THE STOCK MARKET?

Demographics may not quite be destiny, but they sure have a powerful impact on the economy. That has been especially true for the group of people born between 1946 and 1964, the so-called baby boom generation. Recently, congressional policymakers held hearings on the likelihood of baby boomers' overwhelming the current Social Security system during their retirement years, roughly 2010 to 2050.

Now it turns out that retiring baby boomers may pose problems for the private, employer-sponsored pension system as well. That's the conclusion of a recent paper by John Shoven, economist at Stanford University, and ...vester Schieber, an employee-be... specialist at the Wyatt Co. Usin... same demographic and work-force ...acteristics underlying the governm... Social Security projections, and m... assumptions about investment ra... return and asset allocations, the au... project that the employer pensio... tem will shift from a huge net bu... assets to a net seller, probably i... third decade of the next century.

The impact on the stock, bond ... other capital markets could be ... They predict that benefits will fir... ceed employer contributions in 200... that asset growth will slow sharp... that's the case, America's pension ... will no longer be a major source o... investment funds for the econom... could well put enormous downward ... sure on prices in the bond and ... markets.

Shoven and Schieber argue tha... ployers would be putting more m... into pension plans right now ha... government not put restrictions o... ployer contributions to pension and ... it-sharing plans in order to reduce ... pany tax credits. For example, the ... budget deficit-reduction bill cut the ... of individual employee's compens... that can be considered in funding ... contributing to 401(k) plans. Wi... extraordinarily large number of re... removing constraints on employer ... butions could bolster a baby boo... prospects for a financially he... retirement.

JOB ROLLS CONTINUE TO SHRINK—AND THE END IS NOT IN SIGHT

Corporate layoffs just keep on g... and going, and going....

According to Challenger Gr... Christmas Inc., an international out... ment company, 48,786 layoffs we... nounced in September, the third... est monthly total this year. Worse... of the employers announcing layo... September have downsized two, ... and even four times since the beg... of the year. The top three industr... layoffs for September were comm... tions, chemicals, and transportati... far this year, layoff notices have t... 449,364, and the leading industr... terms of layoffs have been aeros... computers, and retail. There doesn... pear to be any relief in sight, at le... the nation's largest companies. A r... American Management Assn. s... found that the pace of layoffs will ... erate over the next six months.

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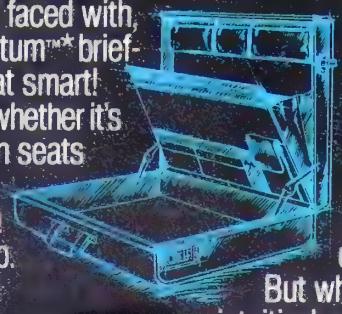

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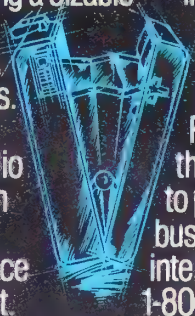

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Every day, the small cry of a newborn etches that reminder on the delivery room wall. Every day, phone calls from customers living through every problem imaginable inscribe it on our minds: It is our business to care. Though CIGNA consists of many separate, highly focused divisions, each with its own distinct area of specialization, CIGNA is also 50,000 people with the very same job. Caring about what happens to our customers. Fact is, there are 230,000 companies, 10 million healthcare members, 5 million people who've entrusted us with $32 billion worth of retirement nest eggs, and many others, who are counting on us. And while we're not perfect yet, our commitment to caring, and to getting a little better at it each day, is something we're going to try to prove every chance we get. By sending checks to storm victims as quickly as possible. By using innovative therapies and coverages to get disabled workers back on their feet sooner. Or just by remembering that on the other end of the phone line is a human being, not a file number. Because when you're in the business of caring, you can't just care about the big things. You've got to care about the little ones, too.

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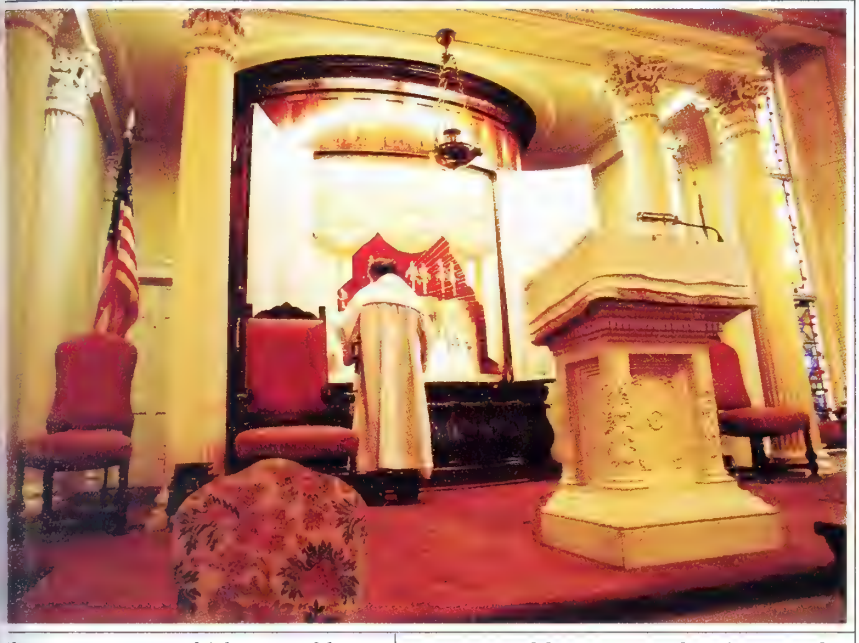
HERE THE SOUVENIRS READ *SHALOM,* Y'ALL'



he synagogue, which resembles a Greek temple, is on a narrow street in the heart of old Charles- S. C. You walk up a brick path, gh whitewashed columns that flank ntrance, and are met by a gracious "Welcome to Kahal Kadosh Beth im," she says, "America's oldest sh synagogue—and the birthplace eform Judaism in the U. S."

e's a bit off the mark. Touro, in ort, R. I., is the oldest American gogue. But Beth Elohim is the old- n continuous use. It is indeed the place of Reform Judaism in Ameri- d the heart of a Jewish community e members have for centuries accepted as full members of noneyed elite. But today, the uility and solidity of Beth Elo- re threatened by a force from n: a faction of back-to-the-He- roots members whom the old l doesn't quite understand.

IMERS. A tour of the syn- ue—rose carpets, 1850 mahogany , 100-year-old stained-glass win- —takes a half-hour and ends with ging to visit the temple's museum gift shop. The former displays a from George Washington, thank- ue congregation for its good wishes s Inauguration. The gift shop sells ags that say: "*Shalom,* y'all."

one time, a fifth of all U. S. Jews congregated here—more than in any other city. These days, while the 4,500 Jews of Charleston constitute less than 1% of the city's population, they remain affluent, influential, and respected. "No one can say anything against the local Jewish community, because it's been here just as long as anyone else," says Rabbi William Rosenthall, rabbi emeritus of Beth Elohim.

In colonial days, the Carolinas had a much more benign—and pragmatic—attitude toward Jews than did Puritan New England. South Carolina's constitution, influenced by the ideas of rationalist philosopher John Locke, promised tolerance to "Jues, Heathens and other Dissenters." The colonies needed human capital, period.

Some of the predominantly Sephardic Jews who came in the early days became planters, but most pursued commerce. The richest became merchants, importers, and *vendues* (brokers or auctioneers) in such commodities as cotton, indigo, rice—and slaves. In 1794, Abraham Seixas advertised: "He has for sale/Some Negroes, male/Of various price/To work the rice."

Charleston Jews had full economic and political rights—a thing without precedent in the Western world: They could vote, hold citizenship, pursue any occupation, and dwell anywhere. Small wonder Beth Elohim's rabbi in 1841 called the city "our New Jerusalem."

In some ways, it still is. "There are anti-Semites here, like everyplace else, but they don't dominate the social or political landscape. Nor do racists," asserts Reuben Greenberg, Charleston's chief of police. "The proof of that is that I'm here." Greenberg is both Jewish and African-American. One of the duties he relishes most is leading the local Ku Klux Klan's annual parade. Greenberg's office issues their marching permit. He meets them at the city limits and, in his ceremonial capacity, leads the procession along its route.

YOUNGER MEMBERS OF TEMPLE BETH ELOHIM IN CHARLESTON WANT TO CHANGE ITS OLD-STYLE WAYS AND BRING IN MORE JEWISH TRADITION

FAMILY PEWS. In 1824, 47 members of the 150-family congregation petitioned the temple trustees for innovations: shorter services, a sermon, prayers in English instead of Hebrew (which few understood anymore) or Spanish (which even fewer understood). Rejected at first, the reforms were adopted in the 1840s and 1850s, along with organ music, English hymns, and family pews in lieu of separate areas for men and women. Paralleling the contemporary Jewish Reform movement in Germany, the innovations quickly took hold. And they soon became hidebound conventions. The current president of the congregation, Sidney Katz, recalls that when he first came here in 1965, "everyone sat where they'd been sitting for centuries. God help you if you took their seat."

But as more Northerners moved south over the past 20 years, the city's Jewish population doubled. "The traditional Charleston Jew feels a little bit of an outsider in his or her own synagogue these days," says attorney Steven Steinert. "You keep hearing: 'I don't like to go to Friday night services anymore because I just don't know anybody.' "

Newcomers and new thinking have

PHOTOGRAPH BY TERRY PARKE

HOW TO PAINT A BRIGHTER FUTURE WITH AMOCO

At one time, many paints and other types of coatings contained high levels of solvents known as *volatile organic compounds* (VOCs). The problem with VOCs is that as they evaporate during application and drying, they can increase ozone at ground level and contribute to the formation of smog. That's the reason why paint and coatings manufacturers are today using substances such as purified isophthalic acid, terephthalic acid and trimellitic anhydride from Amoco Chemical Company in their formulations. These high-purity chemical materials allow significant reduction of VOC emissions without sacrificing paint color, flexibility, hardness or weather resistance.

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shaken Beth Elohim. Newer membe
now about half the 352-family con
gation—have pushed for a return to
ditions that no old-timer can remem
services with more Hebrew, more
ing, more ritual. "A lot of these pe
don't come to temple regularly," s
Joan Schones, a temple guide. "It
old fogies who attend. And we c
understand Hebrew."

The clash came to a head in a b
over *The Gates of Prayer*, a new
form text that replaced the centur
Union Prayerbook 18 years ago
modern English, more promine
placed Hebrew passages, and tradit
right-to-left reading. Beth Elohim
began using *Gates* in 1987, and then
on occasion: Rabbi Rosenthall held
line against its wholesale intrusion.

**IN THE GIFT SHOP: TOTE BAGS, MENORA
AND THE SENSE OF A VENERABLE HISTO**

sion between the camps grew jus
Beth Elohim was being surpasse
membership by Charleston's conse
tive temple, a 1947 newcomer. All
led to the replacement of Rabbi Ro
thall with Rabbi Anthony Holz in 1

Holz has met with a mixed recep
But he has made it easier for the
guard to get its way by conducting
reach efforts to attract younger co
gants, especially the children of m
marriages. Still, the old-timers, shri
in numbers, remain "the financial
jority," as Katz puts it. So Holz,
says he is "more open-minded tha
predecessor," is making changes sl
Among them: adding more Hebre
Sunday school and allowing the v
ing of yarmulkes in temple (long fo
den by Rosenthall).

As for the prayer books, Holz, "in
Solomonic judgment," has decided t
them both—on alternate weeke
Meanwhile, the Union of American
brew Congregations has been revi
Gates of Prayer and recently publish
new edition. Nobody at Beth Eloh
even thinking about that one yet.

TROY S

Segal is a New York-based w

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At the peak, research at its peak.

In Bayern, research is paramount. At the very peak of the Zugspitze, Germany´s highest mountain, there´s an atmospheric research station. Though a bit lower in altitude, the state´s other scientific institutes (the headquarters of the world-reknowed Max-Planck and Fraunhofer institutes are in Bayern), universities, polytechnics and technology transfer agencies all conduct research at the same high level.

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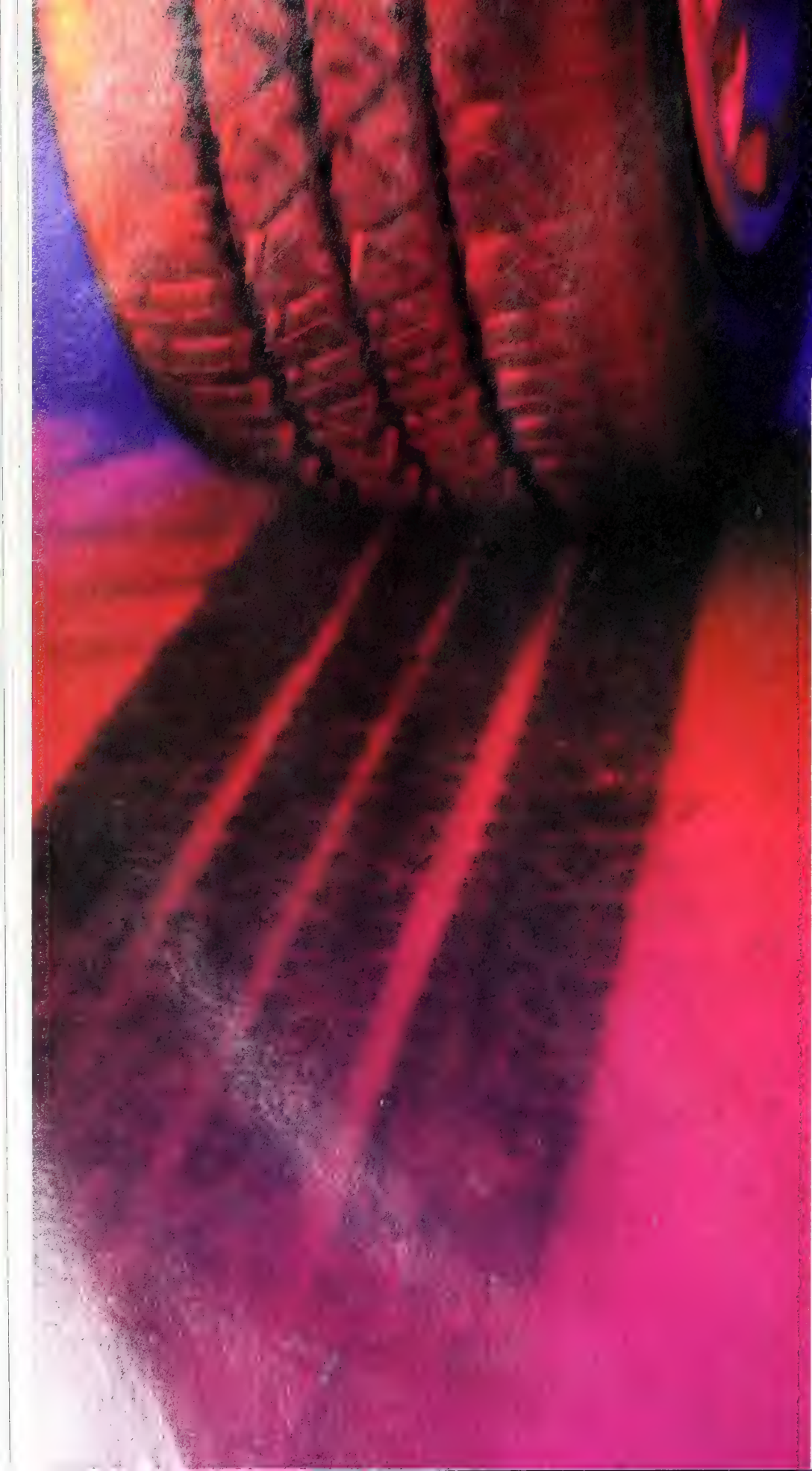
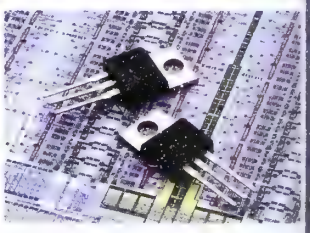


Imagine a chip that stays so cool it gives drivers a brake in panic stops.



The electronic modules that control anti-lock braking systems must contend with engine compartment heat that often exceeds 248 degrees. Now, advanced power technology from Siliconix, a member of AEG's Microelectronics Group, TEMIC, allows circuits to run cooler and, therefore, more reliably. Siliconix is the leading worldwide supplier of power MOSFETs for ABS applications. Power MOSFETs from AEG offer the industry's lowest on-resistance, which allows them to carry higher current without overheating. Not only are they more reliable, they reduce system cost. And they're things every driver can live with.

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OBER 25, 1993

BY JAMES C. COOPER AND KATHLEEN MADIGAN

IORE JOBS—BUT THEY'RE OTHING TO GET WORKED UP ABOUT

he latest readings from the labor markets offer a mixed bag of pluses and minuses for the economy. On balance, the job data suggest a continuation of lerate economic growth in the third quarter, with im-ving prospects for the fourth.

he September report on the labor markets shows payrolls are growing, but that new jobs are lacking in quantity and quality, compared with past recoveries. torally, manufacturing employment remains in a 4½- slide, while a handful of service industries continues enerate most of the new openings (chart).

And regionally, job markets are improving in some states, such as Massachusetts and Michigan, where the recession hit hard, but California is still suffering (table). California, which slipped into recession well after the states in the Northeast, remains a big drag on the national labor markets. In fact, job growth in the state will rank 50th in the country through 1994, rding to projections by DRI/McGraw-Hill Inc. Califor- makes up 12% of the U. S. labor force.

ven though the labor markets still lack the zing of recoveries, productivity gains continue to generate a ıter-than-usual share of the economy's output growth. rs worked rose at an annual rate of just 1.5% in the d quarter, down from 4.3% in the second, suggesting productivity rebounded from its poor first-half show- Service-sector productivity appears to have bounced ς, while factory efficiency posted another stellar gain.

)OK FOR A RAG FROM OWN ON HE FARM

Measured by real gross domestic product, however, third-quarter economic growth is shaping up to be a mixed bag as well. In particular, the Commerce Dept. mates that the Midwest floods and Southeast drought ıced farm income by some $35 billion in the month of , and that figure reflects only crop damage and unin- d business losses. The total impact, including a de- ion of grain and livestock inventories, was larger. nomists at Merrill Lynch & Co. estimate that the total ı-sector drain on third-quarter GDP could approach 2 entage points.

Where the economy shows buoyancy, though, is in the ngth of domestic demand. Solid third-quarter growth onsumer spending, equipment investment, and residential construction is reducing inventories—especially of cars—and setting up a rebound in output, which could give fourth-quarter GDP a big boost.

If so, job growth is due for a lift out of its recent humdrum performance. Industries added 156,000 workers in September—good, but not great—following a loss of 41,000 jobs in August. The two-month net gain was the smallest in a year, and there is some question about the strength of the September increase.

That's because private-sector employment, excluding government, expanded by a mere 85,000 workers. Jobs on public payrolls ballooned by 71,000, led by a 54,000 increase at the local level. One explanation: Seasonal adjustment gave government jobs a boost because the survey was taken later than usual, giving teachers time to return to the classroom. If so, government employment will be a drag on October jobs.

AN ARMY OF TEMPS GETS RECRUITED

As usual, service producers generated all of the September gains, while manufacturing accounted for the weakness. In fact, since the recovery began in March, 1991, four service industries—temporary help, health, restaurant, and social services—have accounted for all of the growth in payroll jobs. In September, these four made up less than 18% of all nonfarm employment.

During the past year, their contribution to job growth has diminished to a still-high 54%, as other service industries have increased their hiring. The job-weighted average hourly wage in these four categories, however, stood at only $8.74 last quarter, compared with $10.16 for all services and $10.84 for the entire nonfarm sector.

JOBLESSNESS IN THE 11 LARGEST STATES

	SEPT. '93	CHANGE SINCE MAR. '91*
MICHIGAN	6.7 %	−3.6%
MASSACHUSETTS	7.2	−2.2
NORTH CAROLINA	4.2	−1.4
FLORIDA	6.4	−1.0
U.S. AVERAGE	6.7	−0.6
PENNSYLVANIA	6.9	−0.2
TEXAS	6.6	−0.1
OHIO	7.3	0.3
NEW YORK	7.1	0.4
NEW JERSEY	7.7	1.1
ILLINOIS	8.5	1.8
CALIFORNIA	9.4	1.9

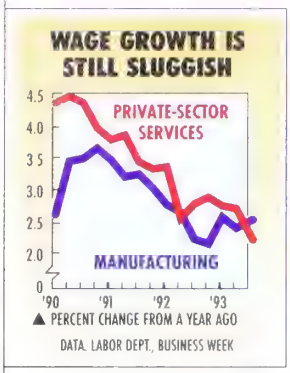
*PERCENTAGE POINTS SINCE THE END OF RECESSION
DATA: LABOR DEPT., BUSINESS WEEK

Temporary help is one of the fastest-growing employment sectors. In the third quarter, such temporary jobs were up 16% from a year ago, compared with a rise of 1.6% for all payrolls. Employers, especially retailers, are increasingly using temporary help to avoid paying the costly benefits they would have to incur when using full-time workers.

Temporary workers are also more prevalent on the factory floor. Because these workers do not show up on

ERIC HOFFMAN/N. BW

payrolls, the use of temporary hires suggests that factory jobs may not be dropping as quickly as the Labor Dept.'s numbers indicate. Moreover, the readings on productivity are skewed in favor of manufacturing because, although the temps are producing factory goods, their work time is counted as part of the service sector.



Still, the U.S. economy cannot be considered strong until factories start hiring permanent workers. Manufacturers handed out 18,000 pink slips in September, dropping their payrolls to the lowest level since 1965. One small consolation is that the factory losses have been getting smaller in recent months, and the workweek and overtime remain at historically high levels.

With hours stretched so thin, though, and with factory inventories so low right now, additional output in the fourth quarter may well require more people. That's especially true in the auto industry, which has scheduled the strongest quarterly output in five years.

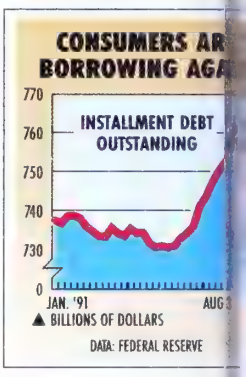
SPENDING IS BACK, AND SO IS PLASTIC

The changing composition of jobs is why wage growth has fallen back to a sluggish pace. While the wages of factory workers are being lifted by overtime, the addition of relatively low-paid service workers means that pay gains in that sector continue to slow (chart).

In September, for example, the average hourly wage earned by nonfarm workers was unchanged, at $10.86. Declines in all major service categories—from retail trade to finance—offset the 0.6% rise in factory pay. In addition, because the nonfarm workweek dropped by 18 minutes, weekly pay fell 0.9% in September, suggesting that last month's growth in personal income was weak.

Still, the one-month setback doesn't seem to be an impediment to consumer spending. Income growth was id enough in the preceding months to keep shopper the stores in September. And the *Johnson Redbook Re* published by Lynch, Jones & Ryan Inc., says that partment- and chain-store sales in early October v up 1.2% from their September average.

One reason for the continued rise in consumer outla that credit cards are back in style. After being an nomic pariah for two years, consumer borrowing made a very strong reappearance. Installment debt $3.63 billion in August, after July's $5.04 billion incre Both advances were led by sharp gains in credit- and other revolving debt. Consumer credit outstan now stands at a record-high $761.1 billion (chart).



But the onslaught of plastic is not a danger to the outlook. That's because—unlike the late 1980s—borrowings are rising in line with income growth. Even with its recent jump, installment credit outstanding as a share of disposable income has remained near 16.1% for more than a year.

Clearly, households are borrowing at a pace that can be comfortably covered by their monthly budgets. So any future increase in income likely be matched by more credit use—a good sign fo tailers as they stock their shelves for the holiday shop season.

A healthy increase in consumer spending would tainly wipe out the mixed-bag quality of this 2½-yea expansion, especially if the advance translates to proved hiring and industrial output for the rest of year. Add in the lifts from capital spending and home struction, and the U.S. economy begins to look less li sow's ear of conflicting signals and more like a silk p of solid growth.

THE WEEK AHEAD

HOUSING STARTS

Tuesday, Oct. 19, 8:30 a.m.

Housing starts probably fell to an annual rate of 1.30 million in September, down from their 1.32 million pace in August, according to the median forecast of economists surveyed by MMS International, a division of McGraw-Hill Inc. The decline is suggested by the drop in total hours worked in the construction industry last month. Still, low interest rates and a high number of mortgage applications mean that housing demand remains firm. Single-family house construction has been particularly strong, ing by 11% in August. Building of ti unit housing is still a small drag the housing industry, as past overbuilding and demographics reduce the need for new apartments in most parts of the country.

INITIAL UNEMPLOYMENT CLAIMS

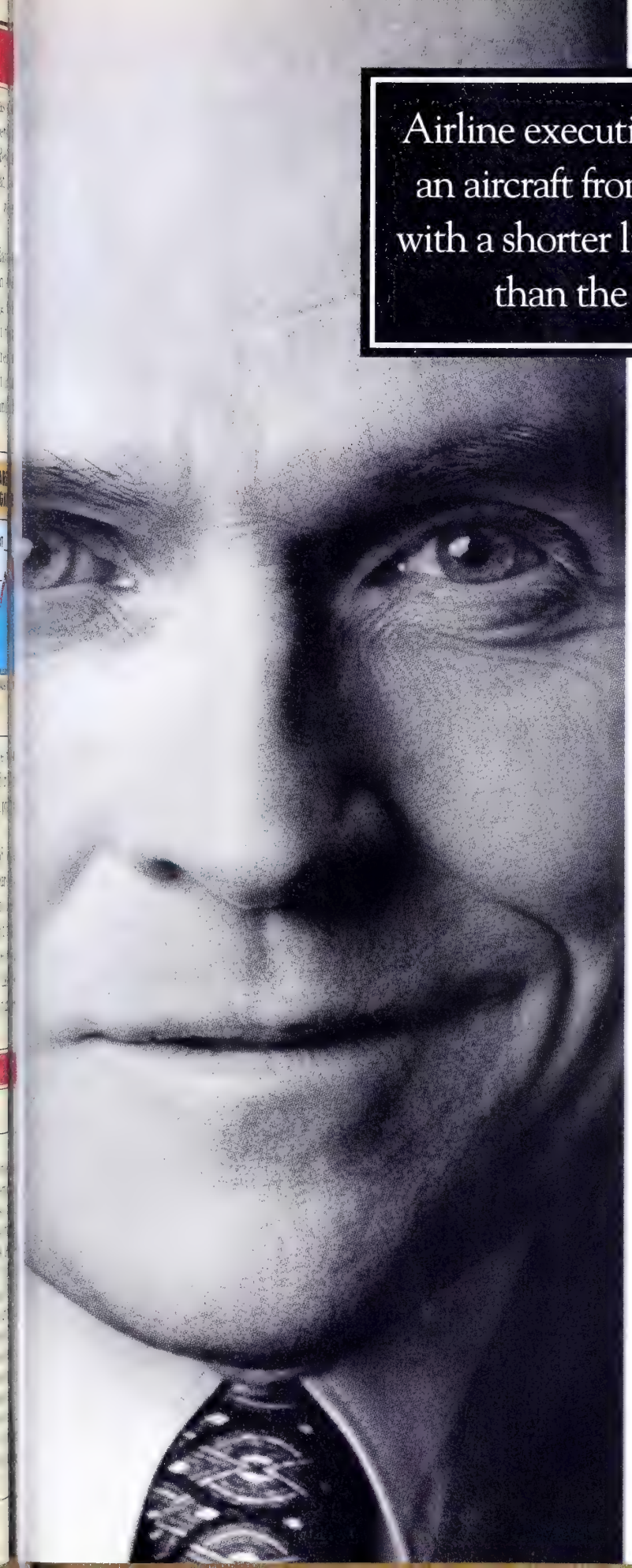
Thursday, Oct. 21, 8:30 a.m.

New claims for state unemployment insurance benefits likely stood at 320,000 for the week ended Oct. 16, the same as the week ended Oct. 2. Filings could be even lower, however, because the survey week includes the Columbus Day holiday, when state offices were closed. In general, jobless claims have been running in a lower range since the middle of August. After averaging about 350,000 for most of the summer, claims have been running at a rate of 325,000 for the past seven weeks.

FEDERAL BUDGET

Friday, Oct. 22

The U.S. Treasury will probably re a surplus of $9 billion in Septem forecast the MMS economists. If so, federal deficit for fiscal 1993 would $254 billion—the smallest gap since The government posted a $23.2 bi deficit in August, and a surplus of billion in September, 1992. Washing finances this year have been helpe an increase in tax receipts on the enue side. But more important, out have slowed. Low interest rates are ducing the government's interest modest inflation is keep cost-of-li adjustments down, and defense cuts curtailing the military budget.



Airline executives won't buy an aircraft from a company with a shorter life expectancy than the aircraft.

It's the darndest thing. Airline executives, who invest millions of dollars in aircraft, like to feel that your company's going to be around for a while. It's a fair business question. And when the question comes up, we like to answer it by pointing across the tarmac to our new MD-90. What's the connection? Well, this is the aircraft with the lowest noise and emission rating in its class. In the world. An aircraft built with the intention of meeting and exceeding environmental demands for years and years to come. And that means twenty-five years from now, this aircraft will still be a smart, tough, viable competitor. Just like its creator.

MCDONNELL DOUGLAS

Performance Above and Beyond.

BELL-RINGER!

HOW BELL ATLANTIC AND TCI HOOKED UP—AND WHAT IT MEANS FOR THE INFORMATION AGE

The largest communications merger in American history started in the basement of Ray Smith's townhouse outside Washington. One evening last June, the chairman of Bell Atlantic Corp. gathered three of his top executives around a card table. Their agenda: to chart a new course for the Baby Bell. Bell Atlantic was no laggard among the regional phone companies. The company was more innovative than the other six Baby Bells in areas such as video services. Yet Smith wasn't satisfied: "What do we need to do to change the nature of this business?" he asked.

The team batted around several ideas about how Bell Atlantic could break out of its comfortable, but confining, business. "We kept coming back to the same conclusion—that we needed a cable partner," Smith recalls. For Raymond W. Smith, the candidate was obvious: Tele-Communications Inc., the nation's largest cable operator, with about 13.2 million subscribers.

One month earlier, Smith had contacted TCI's chief executive, John C. Malone, about ways the two companies could collaborate. Malone, the cable business warlord renowned for his bare-knuckles tactics and maverick sensibility, was seeking ways to launch TCI into the telephone business. Malone got on with Smith, an affable Bell System who spends his spare time directin community theater (page 37). Sm Bell Atlantic, Malone says, was the phone company aggressive enough his taste.

What followed was a round of m ings in Denver, Washington, and York. The executives were so secre that even in one-on-one sessions, referred to their companies by names: Shamrock for Bell Atlantic Ireland for TCI. At one point, Smith to Malone's summer house on the of Maine. During a long cruise on one's yacht, the two began hamme

ALONE AND BELL ATLANTIC'S
: THE NEW COMPANY'S REACH
WEEP ACROSS AMERICA.

THE PROS AND CONS OF THE BELL ATLANTIC-TCI DEAL

THE PLUS SIDE

A PANOPLY OF SERVICES Using digital technology, the two companies can offer a host of new interactive products, from movies on demand to long-distance learning to home shopping.

CAPITAL STRENGTH Bell Atlantic can use its cash flow and borrowing power to upgrade its telecommunications network for video services and to add phone capabilities to TCI's cable network.

MARKET BREADTH Together, the two companies have access to 22 million customers and a presence in 59 of the top 100 U. S. markets, giving Bell Atlantic a broader base than any other Baby Bell.

POTENTIAL PROBLEMS

REGULATORY HANGUPS Government concerns are likely to center on whether a phone company should offer video services in its region, something previously prohibited. One fear: Bell Atlantic could use its regulated phone profits to subsidize fast-growing video and other services.

DUPLICATION OF SERVICES To avoid political fallout and possible regulatory hassles, TCI plans to divest itself of the 14% of its 13.2 million subscribers who are in Bell Atlantic's territory.

MANAGEMENT CONFLICTS John Malone, TCI's chief, promises as vice-chairman of the merged company to mainly advise Bell Atlantic's Raymond Smith, who remains CEO. But Malone will be the new company's biggest shareholder and he may not take a back seat for long.

DATA: COMPANY REPORTS, BUSINESS WEEK

the terms of a deal. "We were try- to determine what the threshold of was," says Malone.

he conclusion: Bell Atlantic would TCI and its cable-programming sis- Liberty Media Corp., for stock val- at roughly $12 billion. Moreover, phone company would absorb TCI's Liberty's mammoth $9.6 billion in . Malone would become vice-chair- of Bell Atlantic under Smith.

till, the work was not done. Each pany had to determine what it was ng to commit in order for the merg o go through. Under the accord they ily reached, Bell Atlantic will end paying TCI a hefty premium on its stock, which, among other things, could catapult Malone into the ranks of media billionaires. The acquisition could depress Bell Atlantic's profits for years. At the same time, Malone, who built TCI from a lackluster assortment of rural cable systems into a formidable media giant, will cede control to Smith.

Even after those weighty issues were resolved, the companies worked furiously to tie up loose ends before making a simultaneous announcement in New York and Washington on Oct. 13. Amazingly, in the rumor-riddled media world—where every company is said to be wooing another—news of this union did not leak out until the night before.

And what a union it is. The new Bell Atlantic will boast more than 22 million cable and phone customers in 59 of the top 100 U. S. markets (table, page 34). Through TCI and Liberty, the company will own major equity stakes in a staggering variety of media franchises, including Turner Broadcasting System, Home Shopping Network, and the Encore pay-TV service. And now, Bell Atlantic could challenge every other American phone company for local service: The two companies plan to rebuild TCI's cable systems for phone service while turning Bell Atlantic's telephone network into an enormous video pipeline.

THE BIGGEST WORRY. The megamerger could still founder, of course. Though trustbusters' quick, back-of-the-envelope view is that it will pass regulatory hurdles, at least parts of the deal could be scuttled by regulatory pressure or legal challenges. And some Wall Streeters are already suggesting that a rival bid could emerge, most likely from one of Bell Atlantic's Baby Bell competitors. Indeed, it could provoke a 1980s style bidding war, like the one for Paramount Communications Inc. in which Malone, among others, has been involved (page 39). At the very least, the deal will force every other cable and telephone company to consider alliances of their own (page 38).

But the bigger worry may be the potential for management squabbles as the two companies try to merge. Malone says he will stay in the background and let Smith operate the company. But Malone and fellow TCI executive Robert Magness will own about 4% of the new company's shares, making them its biggest shareholders. And Malone, who's hardly a shrinking violet, may quickly start to chafe at his secondary role. If conflicts do emerge, they could run deep: The merging companies have highly divergent corporate cultures. Philadelphia-based Bell Atlantic is steeped in the tradition of the highly regulated, cautious Bell System. TCI, based near Denver, epitomizes the freewheeling, cowboy opportunism of the cable industry.

If the merger comes off as planned, however, those wondering when the concrete would be poured for the information superhighway needn't look any further. Smith's and Malone's deal is the boldest gamble yet on the coming con-

vergence of computers, communications, and media. This odd couple agree on one thing for sure: They want to bring you a revolution in home entertainment and information. Bell Atlantic says it will be able to provide consumers with everything from video phone calls and long-distance learning to telemedicine and films at the touch of a button. What's more, Bell Atlantic could use TCI's cable systems as a network to construct a new generation of wireless phone service, called Personal Communications Services. The company plans to bid aggressively for the rights to PCS in government auctions scheduled for next year.

As rival communications companies and government regulators sifted through the implications of the Oct. 13 announcement, some were almost at a loss for words. James H. Quello, chairman of the Federal Communications Commission, calls the merger "the most momentous deal of the decade in a decade of huge mergers, acquisitions, and joint ventures." Adds the chief executive of a rival cable company: "This shuffles everything so thoroughly that I can't even begin to think about it."

Indeed, the deal dwarfs other much-trumpeted communications alliances of recent years, such as U S West Inc.'s $2.5 billion investment in Time Warner Inc. and Nynex Corp.'s recent $1.2 billion stake in Viacom Inc. If debt is figured into the purchase price of TCI, Bell Atlantic's bid even tops Time Inc.'s $14 billion purchase of Warner Communications Inc. in 1989. Wall Street sources estimate that Salomon Brothers Inc., which represents Bell Atlantic, may net $20 million in fees. Incredibly, Malone acts as his own adviser.

Not the least of the merger imponderables is its implication for the Paramount bidding war. Malone supports Barry Diller's effort to wrest Paramount away from Viacom, which announced an $8.2 billion merger with the entertainment giant on Sept. 12. Diller's company, QVC Network Inc., countered with $9.5 billion in stock and cash. And Paramount's board has agreed to informal talks with him. Liberty Media owns 22% of QVC and has stocked Diller's war chest with $500 million.

RUFFLED FEATHERS. Malone says he still backs Diller's campaign. But he calls Paramount a "peripheral" investment for a company with combined revenues of $17 billion. And he didn't even inform Diller until two days before the announcement. Though it was interested earlier, Bell Atlantic says it won't make a direct investment in QVC's bid for Paramount. Should Diller prevail, though, the combined Bell Atlantic-TCI would own 9% of Paramount, thanks to Liberty's stake in QVC.

Diller may not be the only one with ruffled feathers. Bell Atlantic's move is sure to prompt a blizzard of inquiries from concerned lawmakers and regulators in Washington. Representative Edward J. Markey (D-Mass.), who heads a key communications subcommittee, says he has asked the FCC to launch a formal investigation into potential "market bottlenecks" resulting from such giant combinations. Viacom, which filed an antitrust suit against Malone earlier in the Paramount takeover battle, says the Bell Atlantic deal raises more "troubling questions" about his dominance of the cable and entertainment markets.

And the deal adds new urgency to congressional bills that would reexamine laws restricting cable and phone companies from entering each other's businesses. In fact, Bell Atlantic must win court waivers from the terms of the 1982 breakup of the Bell System in order to pull off the TCI purchase. The reason because the satellite distribution systems used by cable operators such as TCI to send shows around the country is considered a form of long-distance service prohibited by those rules. "I think [lawmakers] are going to be forced by the merger to decide once and for all how they feel about the whole telco-cable arena," says Richard E. Wiley, a leading communications lawyer.

With his 13.2 million cable subscribers and ownership stakes in several cable networks, Malone has clashed repeatedly with government regulators. And his tough tactics have earned him the animosity of heavy hitters such as Vice-President Al Gore. Smith, meanwhile,

TWO HALVES OF A WH

Bell Atlantic

REGIONAL REACH

Major supplier of telephone services in Pennsylvania, Delaware, Maryland, New Jersey, Virginia, West Virginia, and Washington, D.C.

CUSTOMER COVERAGE

18.2 million phone lines, plus 698,000 cellular subscribers.

BUSINESS SEGMENTS

One of seven Baby Bells. Holding company for Chesapeake & Potomac, N.J. Bell, Diamond State Tel., and Bell Telephone of Penn. Owns Bell Atlantic Mobile, fourth-large cellular carrier in U.S. Owns stakes in Telecom Corp. of New Zealand, and Mexico's Grupo Iusacell. Leading installer of optical-fiber cable

1992 ASSETS	1992 OPERATING REVENUES	1992 OPERATING INCOME	CLOSING SHARE PRICE, OCT. 13
$28.1 BILLION	$12.6 BILLION	$2.5 BILLION	65 7/8

DATA COMPANY REPORTS

n far quieter, though no less aggres-
, in his testing of regulations.
ongress has historically prohibited
phone companies from providing
o services or owning cable systems
neir service region. For now, Smith
challenging the ban on cable sys-
s: He plans to sell off all TCI cable
ems in the Bell Atlantic region. That
ts approximately 1.6 million TCI sub-
bers. But Smith is contesting the
nibition on video services. And Bell
ntic won a U. S. District Court case
ugust that gave it the right to offer
o programming in its phone-service
itory. The government may appeal.

PPING MALL. Smith, meanwhile, is
ing ahead. In Arlington, Va., he is
ing a novel technology that allows
phone company to pump movies and
hows through old-fashioned copper
into consumers' TV sets. If perfect-
he technique could allow Bell Atlan-
o forgo the costly rewiring of homes
coaxial cable or fiber-optic lines.
nwhile, in neighboring Alexandria,
Atlantic is doing just that: It is re-
ng the entire city with fiber lines
it will use to provide a direct chal-
e to the city's monopoly cable-TV
em as well as to improve ordinary
ie services—and mount a direct chal-
e to the monopoly cable-TV system.
ut Bell Atlantic's video plans go be-
l just an advanced infrastructure.
so wants to become a programming
erhouse in the new world of interac-
media. It is pouring an estimated
million a year into developing an electronic navigation system for interactive TV services. Called Stargazer, the sophisticated system could appear on TV screens in the homes of both Bell Atlantic and TCI customers in coming years. Using an on-screen motif of a shopping mall, it will offer consumers easy access to home shopping, banking, education, and other interactive services. And Bell Atlantic already is working with key programmers, such as Walt Disney, Paramount Pictures and Home Box Office, in the Arlington test.

Bold as it is, Bell Atlantic's deal with TCI is not without risks. Aside from the possibility that a rival bidder for TCI could emerge, Bell Atlantic is hardly the only company gunning for the interactive future. Indeed, nearly every media, computer and communications concern believes it will be a leader in the field. Computer and software giants such as Microsoft, Apple, and IBM will rival Bell Atlantic with programming navigation systems, while Time Warner, Viacom, and other cable contenders plan to build their own interactive systems—in conjunction with phone-company partners. And new challengers will appear. The next few years could be a free-for-all as the various contenders invade each others' markets.

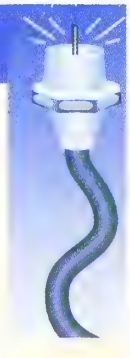
Bell Atlantic's scheme is not without risks: The next few years could be a free-for-all as the various contenders invade each other's markets

Already, Wall Street is eagerly awaiting more deals between cable and phone companies. Shares of cable operators such as Comcast Corp. and Cablevision Systems Corp. zoomed on Oct. 13 on the expectation that they may also be bought by phone companies. Meantime, QVC's Diller continues talks with Bell-South Corp. about a major investment in his bid for Paramount. And Nynex recently paid $1.2 billion to be part of Viacom's effort, while Southwestern Bell Corp. has spent $650 million to buy just two suburban Washington cable systems. Says Abby Johnson, a portfolio manager at Fidelity Invest-ments: "What people are realizing is that everybody had better hurry up and get together and pair off."

Telephone companies may not restrict their investments to cable. Hollywood moguls say some phone companies have also expressed interest in owning equity stakes in studios. Among those willing to hear offers: Sony Corp. of America, which owns Columbia Pictures and Tri-Star. "This is like a game of musical chairs," says Sony President Michael P. Schulhof. "Nobody wants to be without a chair when the music stops. And we own one of the chairs."

About the only phone company that

ATING A CABLE GIANT



TELE-COMMUNICATIONS, INC.

REGIONAL REACH

CI and its subsidiaries
perate systems in 48
ates, Washington, D.C.,
uerto Rico, and Britain.

CUSTOMER COVERAGE

13.2 million subscribers. Of those, around 10 million pay for premium channels.

BUSINESS SEGMENTS

Largest owner and operator of cable-TV systems in U.S. Owns equity stakes in Turner Broadcasting, Liberty Media, and Discovery Channel. Leading effort to develop applications for optical fiber such as multichannel pay-per-view.

1992 ASSETS	1992 OPERATING REVENUES	1992 OPERATING INCOME	CLOSING SHARE PRICE, OCT. 13
$13.2 BILLION	$3.6 BILLION	$956 MILLION	31 3/8

may stay out of the deal game is American Telephone & Telegraph Co., which insists it has no plans to own all or part of a cable company or programmer. Instead, AT&T perceives its role both as a provider of advanced equipment for interactive video networks and as a "wholesaler" of video service. It plans to upgrade its long-distance network so it can store and forward video programming for local service providers such as Bell Atlantic or TCI.

What made Malone so attractive to Bell Atlantic is that he straddles the worlds of cable distribution and programming. Indeed, Malone has garnered equity stakes in an array of cable services such as the Discovery Network's Learning Channel. He also was a leader in the 1987 bailout of Turner Broadcasting System Inc., gaining at the time 23% stake in TBS.

By 1991, though, Malone was fe heat from regulators about the nu of cable-programming services u TCI's sway. So he spun off the prog ming into a new company called Lib Media and became chairman and o of 51% of its stock. As its sh zoomed, Malone's equity and op jumped to $700 million. Then, says lone, the government's reregulati cable turned out not to be so one after all.

At that point, Malone began co plating a recombination of Liberty TCI. He had a powerful incen Though few knew it at the time was already far along in its talks Bell Atlantic. And Malone knew he extract a better price for TCI with erty's rich programming assets. On 6, TCI said it would buy back Liber a stock swap worth $3.5 billion. A few days later, Bell Atlantic offered for each share of TCI, placing a val $11.8 billion on TCI and Liberty.

BLANK CHECKBOOK. One big winner this is John Malone. His $700 m stake in Liberty is now worth clos $1 billion. Some media analysts tion why Malone is getting a 10% pr um on his Class B shares of TCI when Class A shareholders are not. lone argues that he deserves the pr um because he will hold his share up to five years.

As vice-chairman, Malone says he serve as the house visionary for Atlantic. And despite his take-ch reputation, he says he welcomes a r tion of his day-to-day responsibil Media analysts agree Malone is i eviable position: "He has been giv checkbook to go out and look for ventures," says John Tinker, a m analyst at Furman Selz Inc., "while Smith will look after the more ma businesses." That certainly under mates Smith's role in the new com But clearly, Smith and Malone are o the most interesting tandems in A can business.

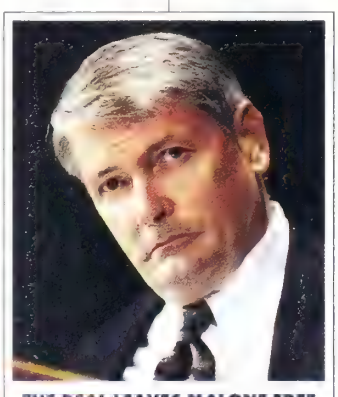
Right now, what binds Smith and lone together is their vaulting amb for the ways digital technology ca harnessed to revolutionize home e tainment and information. If they navigate the regulatory shoals and boardroom strife, the maverick e preneur behind TCI and the genial pany man atop Bell Atlantic just have created the first true 21st-cen communications company.

By Mark Landler and Bart Ziegl New York, with Mark Lewyn in Was ton, Leah Nathans Spiro in New and bureau reports

JOHN MALONE'S GREAT ESCAPE

John C. Malone has been called many things as he built the world's largest cable-TV empire. By his own account, they include "Darth Vader" and "one-man military-industrial complex." One thing he has never been called is a quitter. That's why his decision to sell Tele-Communications and Liberty Media to Bell Atlantic came as such a shock. Not only will Malone no longer run TCI or Liberty on a day-to-day basis but they will carry another company's name.

Why is Malone folding his tent? Cynics say he saw a great opportunity to make himself even richer. Indeed, the $11.8 billion Bell Atlantic deal will give Malone about a 1.5% stake in the new company.



THE DEAL LEAVES MALONE FREE TO EXPLORE NEW TECHNOLOGY

A "GODSEND." Of course, malone could always reenter the fray later on. But for now, Malone tells a different story. He says he had been looking for ways to get TCI into the telephone and interactive-media businesses and realized he couldn't do it without outside help. But the need for telephone expertise throughout TCI implied a deal far broader in scope than a simple joint venture. Malone, moreover, says he realized that he no longer enjoyed managing a major company. Bell Atlantic's offer, he says, was a "godsend" since it addressed both issues.

In an interview with BUSINESS WEEK, Malone also claimed to be weary of the knocks he has taken through the years as the most high-profile symbol of an industry that is often reviled by the public. "I don't like the invasion of my privacy," says Malone. "I don't like all the things that scare my wife to death and make us feel insecure in our home."

What the 52-year-old electrical engineer looks forward to is a return to his first love. "I get very turned on by invention and creativity," he says. Indeed, the deal will allow this former Bell Labs researcher to explore new technologies, such as interactive media, within his role as vice-chairman of the combined company. No longer will he have to run a multibillion-dollar business part of the year from a house in Maine, where he spends summers. Malone will have no executive duties at Bell Atlantic, but says he'll help integrate TCI and Liberty with their new parent and promote the merger to the investment community.

Malone says he had been planning to sever his ties with TCI anyway in favor of running Liberty. In part, that was motivated by regulatory concerns, since he believed the government would force him to choose between cable systems and programming. But Malone says he also wanted to focus on Liberty's more exciting media assets. He has been busy planning new cable ventures such as the Encore pay-TV channel and the merger of QVC Network with archrival Home Shopping Network.

As it turns out, Malone didn't have to choose between TCI and Liberty after all. By pulling off the Bell Atlantic deal, Malone may have found a way to tinker in a wide array of new media ventures without being labeled a control freak or a monopolist. That unenviable risk falls to Ray Smith.

By Bart Ziegler and Mark Landler in New York

HE SHARP OPERATOR T BELL ATLANTIC

y Smith's goal: "Transform the way we work, play, and learn"

When Raymond W. Smith joined the Bell system 34 years ago as a freshly minted engineer in Pittsburgh, part of his training was to climb telephone poles. While some other aspiring managers were cool on the idea—and dropped their trainee's "hooks" as soon as they could—Smith kind of d the view. His admirers say he n't stopped scaling heights at the pany—or making waves in the tele- munications industry.

ince becoming chief executive Bell Atlantic Corp. in 1989, th has made it one of the most ressive of the Baby Bells. le his plan to acquire cable gi- Tele-Communications Inc. is brashest move yet, it is hardly naracteristic. In his zeal to n Bell Atlantic further into the tal age, the boyish-looking 56- -old has taken on regulators the courts to broaden the pany beyond basic telephone ice. "When we had lunch three our years ago, he was already ing about the fact that we ld be answering our televisions looking at our phones," says ner New Jersey Governor mas H. Kean, a Bell Atlantic d member.

he proposed merger with TCI ld provide a giant step toward ing that vision come true. But mith feels any vertigo about ming CEO of a colossus with bined annual sales of $17 billion, he's letting on. Gushing about the deal ct. 13, he said the merged company ld be "the first truly nationwide pro- r of wire and wireless service, video- emand, and interactive media, all d into one." It would "make the elec- ic superhighway we've been talking it for a while a reality." And it ld "transform the way we work, , and learn."

G-AND-DANCE MAN. It would also for- alter the sluggish business of being by Bell—something Smith has been ng to do for half a decade. Faced slow-growth local phone service, h has been eyeing cable TV and oth- lternative technologies since win- the corner office. Along the way, he has blasted through court rulings and legislation that limits the Baby Bells' ability to expand.

In 1991, Smith successfully challenged legal restrictions barring the phone company from providing information services such as electronic yellow pages. And this year, he won another court fight for the right to provide TV programming in Virginia. With plans to build fiber-optic systems for cable operators in New Jersey, Bell Atlantic is far and away the leader among the Baby Bells in their push toward cable.

Smith's high energy isn't limited to the office. An avid reader, he has become something of an expert on the French Revolution. He likes to dabble in oil painting. A theater buff who has sung and danced in local productions, he now writes and directs plays near his home in Swarthmore, Pa.

He also uses his stage talents at work, sometimes singing at company meetings or coining terms to help his marketers sell the product. One contribution: "The Intelligent Network," a phrase describing Bell Atlantic's computerized system of phone, video, and data. "Ray is able to take complex phenomena and provide a simple image to help other people imagine what he's talking about," says Harvard business school Professor Rosabeth Moss Kanter, who profiled Smith in a 1991 *Harvard Business Review* article called "Championing Change."

DOUBLE VISION. Smith has made change a byword at Bell Atlantic. Managers are encouraged to take big risks, and Smith makes it clear he will back them. One of the biggest examples was the 1990 acquisition of New Zealand's phone company, a move that cost Bell Atlantic $1.2 billion. Many at the top of his company thought the plan was too risky. "At times, I felt like Ray was the only vote I had on my side," recalls then-international chief C. Hyde Tucker, now a corporate vice-president. The move paid off. Bell Atlantic and a partner bought the offshore system, then sold off half in a stock offering. Since then, with Bell Atlantic's help, the outfit's stock price has tripled.

Friends give Smith high marks for diplomacy, too. And he'll need it to deal with TCI's notoriously tough-minded John C. Malone. Smith would become chairman and CEO of the merged company, while Malone takes the vice-chairman slot. Malone makes it clear that Smith would be in charge, saying: "We couldn't have a better CEO than Ray." But Malone and TCI Chairman Robert Magness together will own a 4% stake in the combined company, and Malone isn't likely to sit idle. "I intend to be involved in terms of advising Ray and the board, and helping out wherever I can in terms of this vision thing." For the new company to work, Malone and Smith need to keep their vision things in sync.

By Joseph Weber in Philadelphia

RAYMOND W. SMITH

AGE 56 **BORN** Pittsburgh

EDUCATION Carnegie Mellon, BS in industrial engineering. University of Pittsburgh, MBA.

RESUME A Bell system lifer, he started there 34 years ago and rose through the finance ranks. Named CEO in 1989.

STRATEGY Engineered a bureaucracy-busting downsizing, then pushed overseas with investment in New Zealand and Mexico. Now plunging into cable. Sees eventual integration of cable and phone service.

PERSONAL Directs local community theater productions.

DATA: BUSINESS WEEK

DAVID FIELDS/ONYX

Commentary/by Peter Coy

THE BELLS' SIBLING RIVALRY TURNS INTO SIBLING WARFARE

An empire falls, and before long its sovereign states are at one another's throats. The Soviet Union? Yup. And now the Bell System, too.

The seven Baby Bells that were spawned in the court-ordered 1984 breakup of American Telephone & Telegraph have skirmished from the start. Until now, though, it has been mainly low-intensity, resembling the maneuvering of preening entrants in a beauty contest. To date, the judges—investors—have given the highest marks to Ameritech Corp. and the lowest to Nynex Corp. (map).

On Oct. 13, with Bell Atlantic Corp.'s $12 billion deal to buy Tele-Communications Inc. and Liberty Media Corp., the preening turned to war. In this conflict, the winners are assured major roles in the explosion of information and entertainment services; the losers are left to defend the slow-growth business of plain old telephone service.

SLIM PICKINGS. For now, count Bell Atlantic a winner. It intends to strike at the heart of the other Bells' phone service monopolies by upgrading TCI's cable networks to carry phone calls. A TCI network in Chicago, for example, that delivers television and movies soon might deliver phone calls as well, stealing revenue from the local Bell company, Ameritech. That's a huge opportunity: TCI has more than 10 million cable subscribers nationwide.

The other Bells are likely to acquire cable operators themselves. But with TCI scarfed up, the pickings are suddenly slim. The No. 2 cable operator, Time Warner Inc., isn't available for partnership: U S West Inc. bought a $2.5 billion stake in it this year. Players such as Cablevision Systems, Jones Intercable, and TCA Cable TV don't boast TCI's national presence. "We'd have to buy two or three or four or five" cable companies to match Bell Atlantic, says Steve Dimmitt, Southwestern Bell Corp.'s director of strategic business development.

With the stakes suddenly raised by Bell Atlantic, the other Bells would do well to avoid cutting deals just for the sake of cutting deals. Some properties just don't fit. One possible example: Viacom Inc., the cable programmer and operator that shopped itself to all of the Bells and is seeking a cash injection to help fund its bid for Paramount Communications Inc. Nynex jumped at the chance, spending $1.2 billion for 11% of Viacom.

Nynex argues that Viacom gives it "vertical integration"—programming as well as distribution. But vertical integration isn't all it's cracked up to be. Plenty of companies flourish by doing one thing well—Intel Corp. in chips and Microsoft Corp. in software, to name t... And it's hard to find the synergy ... tween the hardware of Sony Corp. ... Matsushita Electric Industrial Co. ... the movie studios they have bought.

In contrast, the blending of Raym... W. Smith's Bell Atlantic and John... Malone's Tele-Communications is m... horizontal integration than vertical. ... has high-capacity coaxial cables ... needs experience in networking. ... Atlantic is strong in networking ... lacks high-capacity connections to ... home. Their skills are complement... Together, they intend to build easy-... use networks that let people order ... vies, participate in on-line debates, ... make video phone calls.

Developing those services will... costly. But Bell Atlantic and TCI tog... er have enough customers to justify ... expense. Ronald L. Altman, a manag... director and telecom strategist at I... man Selz Inc., calls the merger "a b... liant move by two brilliant individuali... create the dominant communications ... tity on a worldwide basis."

Just under a decade since Ma... went to her reward, Bell Atlantic ... mounted a stiff challenge. Its six sibl... ignore it at their peril.

Technology Editor Coy covered t... Baby Bells for three years.

S PARAMOUNT ARRY'S BABY NOW?

e TCI-Bell Atlantic deal gives QVC heavy financial ammo

Never underestimate John C. Malone's ability to make a complex situation even more byzantine. By striking a deal with Bell Atlantic Corp., the chief executive of Tele-Communications Inc. has dramatically recast the weeks-long battle for Paramount Communications Inc. The noisy fray ıst surely will grow louder. But now, e believe that QVC Network Inc., the ıe Malone is backing, has a better ıce of prevailing.

he battle certainly has ıy to go. Bell Atlantic's ıatic entry gives rival :om Inc., the original ımount bidder, new erial for its argument QVC's bid raises insurntable regulatory con- :s for Paramount's d. But by allying TCI a cash-rich regional ıe company, Malone given QVC Chairman y Diller enormous fiial leverage. That edge l grow: Within days, sources close to the ɔany, QVC is expected ınounce yet another inment partner—likely South or Cox Enter- :s—adding $1 billion to ar chest.

GUARD. Bell Atlantic want Diller to win mount almost as much iller does. Publicly, Chairman Ray- d W. Smith is cautious: "I support , who supports QVC." But Bell Atlanike the other Baby Bells and cable ɔanies that are massing outside mount's door, covets the studio's liy of 900 films and the educational erial in its Simon & Schuster Inc. ishing unit. Insiders say Bell Atlanld separate talks with Diller about orting his bid for Paramount, even ing nearly $2 billion for a 25% stake C. The company also met with Viawhich later won a $1.2 billion inment from Nynex Corp.

hat now for Diller? Sources close e deal say he was caught off guard falone's talks with Bell Atlantic and told about it only two days before it was publicly announced. Nonetheless, "Diller is a more important part of the [Paramount] equation now," says John Tinker, a media analyst at Furman Selz Inc. Malone, who only last week agreed to reunite TCI with QVC partner Liberty Media Corp. in a $3.5 billion stock swap, says he's strongly committed to the bid: "Only Barry Diller could make Paramount worth the prices now being offered for it," Malone says.

That's the argument Diller and company will make soon to Paramount board members, who agreed on Oct. 11 to begin "informational discussions with QVC in order to evaluate various aspects of its proposal." They also must soothe would-be investors. In the hours after the Bell Atlantic merger was announced, Diller and Herbert A. Allen, QVC's investment banker, worked the phones to assure BellSouth, Cox, and other potential partners that TCI wasn't pulling out. The two also are said to have stressed that QVC's board would be restructured to ensure that Malone would not exert undue influence over Paramount decisions if QVC won the contest.

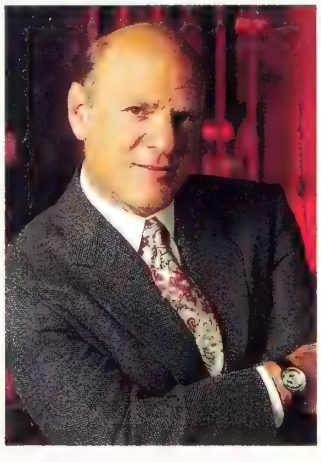
So far, knocking Malone's prospective role in a QVC-Paramount deal has been Viacom's major defense against Diller. The company has already filed an antitrust suit against TCI and Malone. Viacom Chairman Sumner M. Redstone and Paramount Chairman Martin S. Davis have been making the rounds in Washington to argue that Malone's strong presence in both cable systems and programming gives him a near-monopoly in many markets. With Bell Atlantic, they likely will add, Malone's reach would now cover a huge percentage of the country. Davis himself has much to lose: If Diller wins, he's likely to waste little time casting his old boss and enemy out of the corner office.

TCI could still be forced to exit QVC's Paramount bid by selling its stake in the home-shopping channel if the regulatory spotlight on TCI becomes too intense. And even if the two companies eventually win regulatory and antitrust approval for their combination, the likely delay could hobble QVC. Regulatory uncertainties could undermine QVC's lofty stock price, which provides the financial basis for two-thirds of its bid. "Clearly that's what Sumner is hoping will happen," says one observer.

Still, in the end, Redstone may be the one who walks away. Although it is widely expected that Viacom will sweeten its bid in the next few days—most likely upping the overall value to within striking distance of QVC's $9.6 billion bid—Redstone could win big by folding. His Sept. 12 agreement with Paramount could earn Viacom hundreds of millions if its deal falls through. For all the hoopla surrounding the TCI-Bell Atlantic deal, this bidding war may boil down to which side decides that the bidding has gotten too rich.

By Ronald Grover in Los Angeles, with Mark Landler in New York

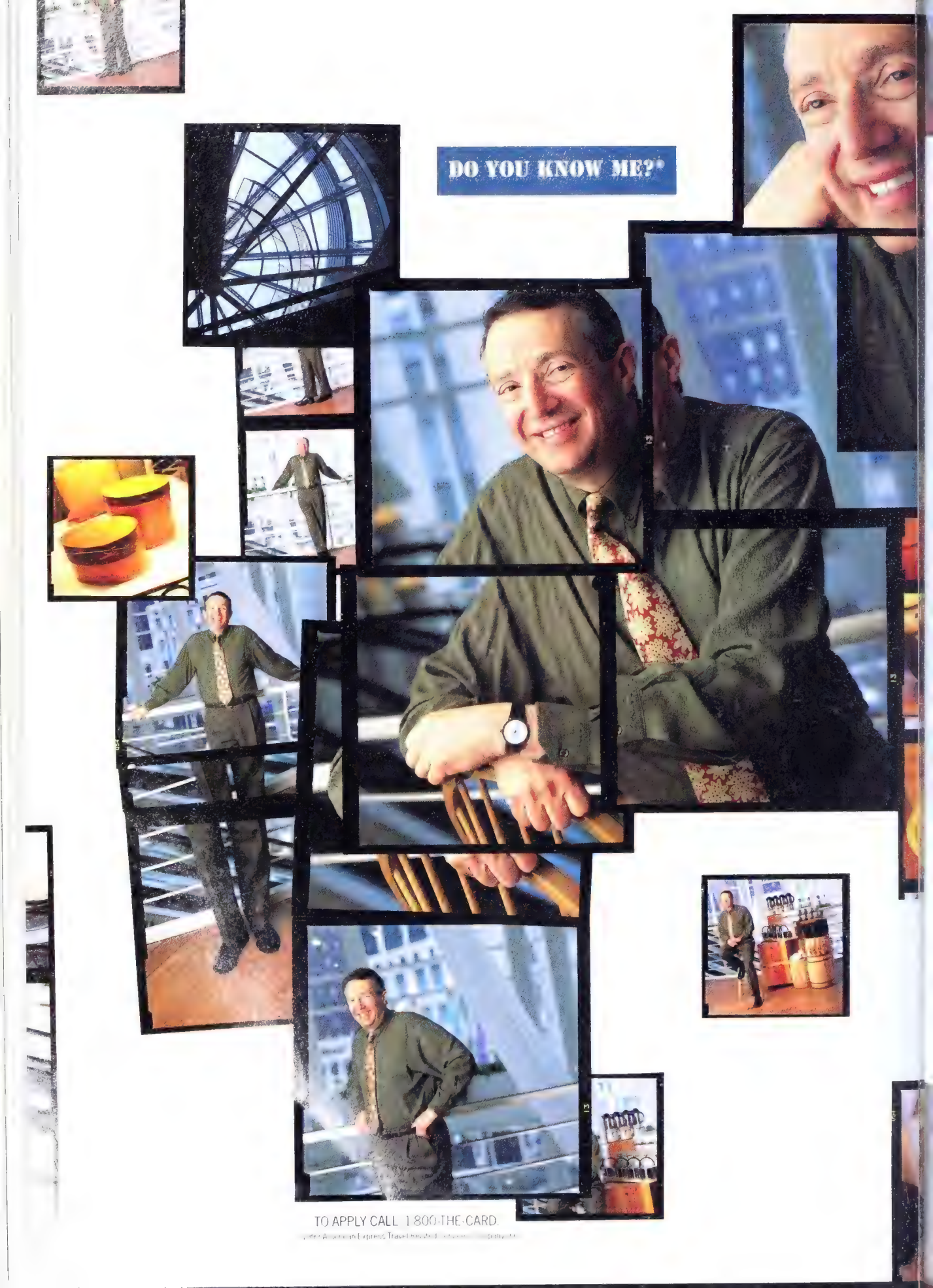
Redstone is hoping that regulatory delays will undermine QVC's bid for Paramount—but he could walk away from the fight



Diller had to quickly assure would-be partners Cox and BellSouth that TCI remained committed to the Paramount struggle

Davis has a lot to lose: If Diller wins Paramount, he'll waste little time casting his old nemesis out of the corner office

PHOTOGRAPHS BY FRANK CONNFILES OUTLINE AARON GOODMAN; JOHN S. ABBOTT



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The name Crate & Barrel just kind of evolved. When we first started, we had no money for fixtures, so we simply turned over the packing crates and barrels. Then we stacked up the dinnerware and glassware, and said, 'That'll tell a story that you can't tell any other way.'

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Gordon Segal
Co-Founder, Crate & Barrel

BEHIND THE GREAT WALL

THE U.S. AND CHINA ARE PRIVATELY DEEPENING TIES

Take a quick gander at U. S.-China relations, and you'd say there's been a serious nosedive. In the past two months alone, points of nasty controversy between Beijing and Washington have included U. S. sanctions against China for exporting missile technology to Pakistan, a nuclear test that Beijing conducted despite U. S. pleas to refrain, and China's expulsion of a well-known dissident. China's trade surplus with the U. S., meanwhile, has ballooned to an estimated $23 billion this year. "The relationship has entered a very bad phase, worse than at any time in the past few years," says a Western diplomat in Beijing.

On the surface, anyway. Behind the scenes, the Clinton Administration quietly has been conducting a major review of its China policy. The goal: to turn the relationship around. According to Administration sources, National Security Adviser Anthony Lake in mid-September presented President Clinton with an extensive policy paper recommending improved ties with China. Now, Washington and Beijing are embarking on the highest level of political, economic, and military contacts since the massacre in Tiananmen Square in 1989. Officials hope the two countries can dramatically ease tensions. "The U. S. and China are entering an important new phase," says a Western diplomat. "Both governments are showing a willingness to engage at higher levels."

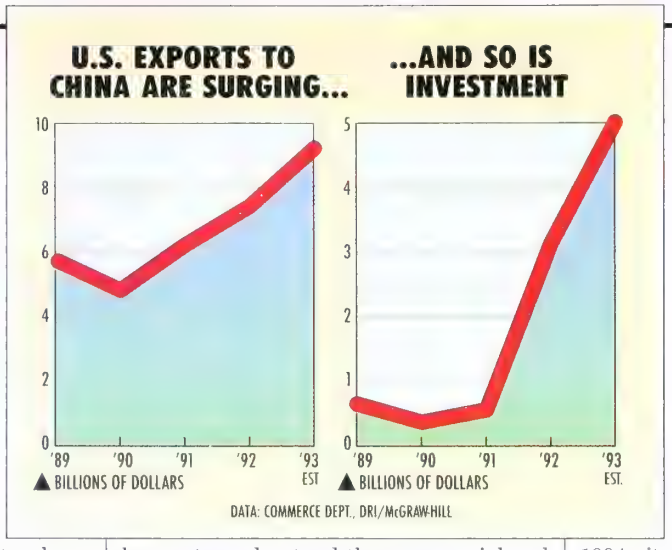
UNSTOPPABLE MOMENTUM ON THE BUSINESS FRONT IS PRESSURING THE WHITE HOUSE INTO ACTION

The centerpiece of the new dialogue is growing next month at the Asia Pacific Economic Cooperation (APEC) meeting in Seattle, Clinton will meet Chinese President Jiang Zemin—the first such Presidential summit since before Tiananmen. Visits by other delegations to Beijing are already happening: After a suspension of two years, talks on human rights resumed in mid-October, with a visit to the Chinese capital by State Assistant Secretary for Human Rights John Shattuck. Agriculture Secretary Mike Espy will soon follow. Also in the works are trips by Treasury Secretary Lloyd M. Bentsen and Defense Assistant Secretary Charles W. Freeman. The Chinese plan to send Deputy Foreign Minister Liu Huaqiu to Washington in early November, in part for arms-control talks aimed at lifting recent U. S. sanctions.

The intensified contacts are largely driven by the dramatic surge of U. S. business activity in China. With Chinese consumers now amassing real buy-

er, the country is no longer merely as a manufacturing platform for cheap consumer goods. Instead, it has become one of the most promising markets for American exports. "China will soon have the world's second-biggest economy," says one senior Treasury Dept. official. "The Administration has no alternative but to be constructively engaged with China."

STAKES. U.S. business has long pushed for a change in attitude. Business has been instrumental in preventing restrictions with China from completely deteriorating since Tiananmen. Both Bush and Clinton have renewed Beijing's most-favored nation (MFN) trade status, despite outcries from Congress about China's human-rights record. The main reason: Corporate America has made it clear that a revocation would deal a serious blow not only to China but also to U.S. companies. Frank Edinger, chairman of the powerful American Chamber of Commerce in Hong Kong, is encouraged by the latest signs. Washington, he says, has "really begun to understand the commercial and economic stakes in China."



Corporate leaders are making sure the stakes keep growing. U.S. investment in China will jump this year to an estimated $5 billion, up from $3.1 billion in 1992. U.S. exports to China also have risen steadily (charts), though not as rapidly as China's exports to the U.S. Now, an unprecedented number of American chief executives are traveling to Beijing, looking for new business opportunities (table). In the past few months, John F. Welch Jr. of General Electric, Robert E. Allen of AT&T, Joseph L. Dionne of McGraw-Hill Inc. (parent of BUSINESS WEEK), and others all have made the trip.

SUIT CITY. The cavalcade, moreover, seems to be picking up speed: Just this month, a slew of other executives arrived in China. Among the visitors: Six top officials from United Technologies Corp., including Chief Operating Officer George David. The executives were in Beijing in mid-October to attend an air show and meet with government and business leaders. Merck & Co.'s CEO, Roy Vagelos, also flew in to open a new hepatitis-B vaccine facility in Beijing. And Anthony Hales, chairman of Allied-Lyons North America Corp.—the parent company of Baskin-Robbins—came to announce the opening of China's first ice cream parlor.

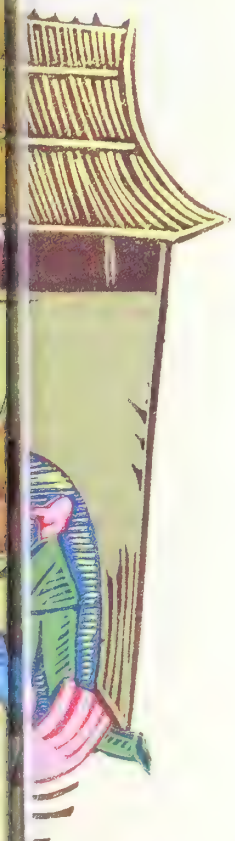
The Chinese are hoping that more deals will lead to a more stable relationship with the U.S. That's especially important because Beijing is about to introduce a second wave of far-reaching economic reforms that will help overhaul its outdated financial structure. Informed sources in the Chinese capital say that the government hopes to establish a ground-breaking national tax system by yearend. By early 1994, it wants to convert the People's Bank of China, a dinosaur institution that doles out loans on political grounds, into a functioning central bank. And by March, the government will try to unify its current assortment of foreign exchange rates into a single rate.

AT EASE. With the momentum for change building, Washington is feeling pressured to act. The Administration recently eased up on the Coordinating Committee on Multilateral Export Controls' (COCOM) restrictions on sales of advanced computers and other high-tech equipment to China and former East bloc nations. And last spring, Washington authorized the Export-Import Bank to extend $72 million in credits to Beijing.

Even military relations, in the deep freeze since 1989, could improve. Military talks will focus on areas such as security and defense conversion. "People were becoming very concerned that unless we start talking to each other, each side would have a knee-jerk hostility toward the other," explains a Pentagon official. That doesn't signal a softer U.S. line on China. But the Administration has concluded that it has little chance of influencing Chinese behavior on sensitive issues such as missile sales if it continues to ignore top-level Chinese leaders.

Given their ideological differences, it's highly unlikely that the two sides will completely mend fences. But the Chinese claim they're more than willing to talk with the new Administration. Says Wu Jianmin, director of the Foreign Ministry's Information Dept: "The core of the issue is how to cope with our differences and develop our common interests." And with Russia, Bosnia, Somalia, and Haiti causing major foreign-policy headaches for Washington, China may be one of the few places where the Clinton Administration can find a fertile common ground to cultivate.

By Joyce Barnathan, with Lynne Curry, in Beijing, and Owen Ullmann in Washington



RIDING THE CHINA SHUTTLE

Since August, a parade of America's top executives has traveled to China to do business. Here's a partial list:

ROBERT ALLEN
AT&T
Established a joint venture in August to manufacture fiber-optic cable

ECKHARD PFEIFFER
COMPAQ COMPUTER
Plans to co-produce personal computers with China's largest computer group

JOHN F. WELCH, JR.
GENERAL ELECTRIC
GE's chairman is promoting GE medical equipment, power generators, and jet engines

ROY VAGELOS
MERCK
His company in October is opening a new hepatitis-B vaccine factory in Beijing

GEORGE DAVID
UNITED TECHNOLOGIES
Hopes to open markets for Pratt & Whitney and Otis Elevator divisions

DATA: BUSINESS WEEK

ALAN BASEDEN/BW

POLITICS

FLORIO, DINKINS, AND CHILES: "IT'S OUR PEOPLE—WORKING PEOPLE—WHO ARE BEING HURT"

THE LAW-AND-ORDER DEMOCRATS

From Clinton on down, they're getting tough on crime and gun control

The words almost sound as if they could have come from that master of law-and-order rhetoric, Richard M. Nixon. During the past month, President Clinton hasn't missed a chance to decry violent crime and to stump for legislation expanding the federal death penalty and funding more police. "Our people have the right to feel safe where they live, work, play, and go to school," Clinton said in an Oct. 9 radio address.

As fear of crime rises (chart), Democrats are refusing to let the Republicans clobber them on the issue. And the GOP is discovering that knee-jerk opposition to gun control is suddenly a liability. As a result, the politics of crime are dominant this fall. In gubernatorial contests in New Jersey and Virginia, candidates are out-toughing each other. And New York City Mayor David N. Dinkins, in a tight race with former GOP prosecutor Rudolph Giuliani, talks constantly about gun control and getting more cops on the street.

For years, Democrats have reflexively denounced GOP anticrime initiatives as thinly disguised racism. Their defensiveness hit its nadir in the 1988 Presidential campaign, when George Bush made furloughed rapist Willie Horton the GOP poster boy.

What has changed? Voter frustration is rising, and Americans want something—almost anything—to be done. "The public knows that prisons don't solve the crime problem," says University of California at Los Angeles criminologist James Q. Wilson. "But it knows that someone in prison won't be raping or robbing outside of prison." White middle-class fears have risen with every carjacking and drive-by shooting. But blacks, too, are demanding action against the tide of inner-city violence. A survey by Fabrizio & McLaughlin, a Republican polling firm, found that blacks favor the death penalty for murderers by a nearly 2-to-1 margin. "A lot of black neighborhoods would love to have 10 policemen on every street," says analyst David Bositis of the Joint Center for Political & Economic Studies, a Washington think tank.

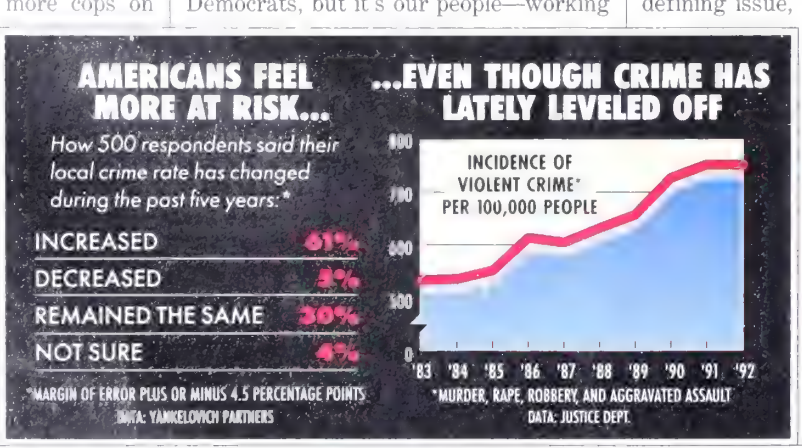
This attitudinal change frees Democrats to take the offensive—and lets Clinton strengthen his credentials as a moderate. "This is a new issue for the Democrats, but it's our people—working people—who are being hurt," says Paul E. Begala, an adviser to both Clinton and New Jersey Governor Jim Florio.

If Democrats were long paralyzed on crime by fear of black reaction, many Republicans are hog-tied by opposition to gun control. A survey by Yankelovich Partners Inc. this past August found that 65% of Americans want stricter controls on guns as part of any anti-crime legislation. Anti-gun control stances are hurting the GOP in New Jersey and Virginia. Florio, who won a ban on semi-automatic assault weapons, has Republican Christine Todd Whitman scrambling to defend her position that some firearms should be removed from the prohibited list. In the tight Virginia race, Democrat Mary Sue Terry has scored points by blasting opponent George F. Allen's opposition to a one-per-month limit on handgun purchases.

PRISON POWER. Elsewhere, Democratic governors are seizing the issue. Florida Governor Lawton Chiles, prodded by the tourist industry fearing catastrophe after the murders of foreign visitors, ordered a bullet-proof vest to ride with Miami police in September. The state legislature will consider a crackdown on guns and juvenile crime in a November special session. In Colorado, Democratic Governor Roy Romer, spurred by drive-by shootings in Denver in the summer, won passage of a measure that allows judges to hold without bail youths arrested for violent crimes.

The GOP isn't about to concede this issue. In Los Angeles, Republican businessman Richard Riordan was elected mayor by promising that he was "Tough Enough to Turn L.A. Around." But Democratic inroads are worrisome. "If the Democrats can co-opt the crime agenda, the Republicans will have lost a defining issue," says GOP consultant Alex Severin III. "You can't lose crime and the social war and retain your identity."

The biggest danger that Clinton will succeed in seizing the issue on the national level. When he headed the Democratic Leadership Council, he urged his party to move beyond searching for social causes of crime—and emphasize law enforcement instead. Although



orney General Janet Reno favors centrating on the "root causes" of ie, Clinton plans to get tough in a ie bill the Senate plans to take up month. "Our message on crime is ple—more cops and fewer guns," s White House aide Bruce Reed. he bill, similar to one vetoed last by President Bush, who opposed its -control provisions, has broad bipartisupport. It would authorize $3.4 bilfor 50,000 new police officers—a start on the 100,000 Clinton promised during the campaign. It would expand the number of federal crimes subject to the death penalty and limit appeals of state death sentences in federal courts. Clinton also supports a five-day waiting period on gun purchases and a ban on assault weapons.

For now, the Democrats' anticrime onslaught has put the GOP on the defensive. But in the longer run, Republicans aren't sure the offensive can succeed. "A Democrat talking about crime is like a eunuch talking about great sex," says Severin. "There's always a disparity between the rhetoric and their ability to produce." For now, the tough Democratic talk looks like a winner. But the GOP will be ready to make Clinton pay the price if his high-profile campaign doesn't make the streets any safer.

By Susan B. Garland, with Catherine Yang, in Washington, Sandra Atchison in Denver, and Gail DeGeorge in Miami

Commentary/by Paul Magnusson

DEFICIT REDUCTION? NO, JUST BLATHER

The convoluted federal budget process, Office of Management & Budget Director Leon E. Panetta s, "gives the American people the pression more of anarchy than of ical decision-making." It's not hard see why. Just look at the grab bag budget-cutting schemes Congress l the White House are about to plement.

Desperate to show that they're gh on the deficit and bound to up to the President's August mise for further spending s, Democrats have hit upon a ies of gimmicks: a new package modest spending recisions, a n meeting, a deficit trust fund, l that old chestnut, the bal-ed-budget amendment. None is answer. "People in governnt keep insisting that if they t tinker a little bit with the cess, the whole problem can fixed, but that's not true," s Stanley Collender, a budget ert at Price Waterhouse.

ES AND RHETORIC. With the fiscal r just weeks old, the White House usily looking for spending cuts. But Administration is aiming low, seekperhaps $10 billion in cuts this r—and using outdated spending jections to exaggerate the savings. h the Administration and Congress, nwhile, are avoiding hard deciis, all the while hoping the public buy their hard-line rhetoric.

Consider the town meeting Clinton mised Representative Marjorie Marles-Mezvinsky (D-Pa.) so that she ld cast the deciding vote that ened Clinton's budget to squeak by House in August. The President, h Cabinet officials in tow, will visit largely Republican suburban Philaphia district on Dec. 13. The topic the meeting: the need to cut entitlent spending, which now comprises ut 50% of the entire federal budget and provides a blank check to anyone who fits the age, income, and employment criteria. Lost amid the hot air will be the reality: Trimming entitlement spending means making hard cuts affecting millions of people.

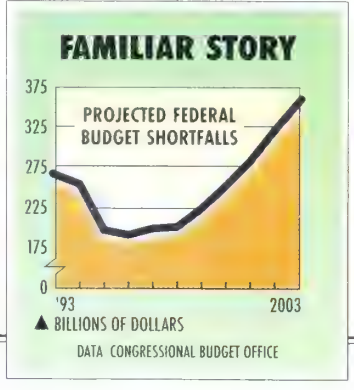
Nor should the public be shocked to learn that Clinton's new Deficit Reduction Fund is worthless. As the 1994 fiscal year began, Panetta directed Treasury Secretary Lloyd M. Bentsen to squirrel away $46.8 billion in a special account to be used to buy back some of the $4.4 trillion national debt. Trouble is, with the federal government running a $253 billion operating deficit this year, Treasury will have to reborrow the $46.8 billion from the public to fill the budget void created by the new fund. It's like paying off your MasterCard bill with Visa. Net savings: zero. But there may be a cost for policymakers once voters figure out they've been had again. "People in Washington always seem to focus on the low repute in which politicians are held, but they seldom consider the reason—that they try to deceive the public," complains Carol Cox Wait, president of the nonpartisan Committee for a Responsible Federal Budget.

CAVEATS. Another hoax, the balanced-budget amendment—is also back. This time, it may actually pass. Senator Paul Simon (D-Ill.) says he has all but lined up the necessary two-thirds of the Senate for a vote on the measure as early as late October. The House is considered a slam-dunk.

Sounds good, sure. But such an amendment is unlikely to work. Dozens of state legislatures now backing the measure are likely to rescind their support when they realize that federal aid to states will be cut first. Moreover, some legal scholars consider the amendment unenforceable.

The Clinton Administration is managing to restrain the deficit in the near term through tax increases and spending cuts. But the long-term problem remains (chart). Meanwhile, the fancy constructs appear never-ending, the creativity of the political process boundless, the ability to borrow bottomless. The real trick would be to exhaust the gimmickry before we run out of credit.

Magnusson covers economic policy from Washington.



INGOTS AND MORE INGOTS: WAREHOUSES ARE BRIMMING WITH ALUMINUM, AND PRICES HAVE FALLEN TO AN ALL-TIME LOW

SUDDENLY, THERE'S ALUMINUM EVERYWHERE

Russia, with almost no defense industry, sends 1 million tons abroad

It used to be that America's aluminum giants were among its strongest performers. While old-line steel titans fumbled and fiddled under pressure from foreign rivals, Alcoa, Reynolds Metals, and Canada's Alcan stayed world-beaters by pouring money into research, investing in the latest technology, and creating vast new markets for their metal. So why are these dynamos suddenly slumping big time?

Call it an acute case of post-cold-war fallout. North American aluminum companies are reeling from a surge of cheap imports from Russia, where huge smelters, with virtually no aviation or defense industries to sell to, are sending 1 million metric tons a year of cheap aluminum to the West. With warehouses brimming with shiny ingot, prices have tumbled to 49¢ a pound, an all-time low if inflation is factored in. As a result, Aluminum Co. of America announced on Oct. 8 that its third-quarter earnings fell 36.4%, to $28.8 million, on revenues that were off 6.3%, to $2.2 billion.

AVALANCHE. Alcoa did well, compared with its rivals. On Oct. 12, Alcan Aluminum Ltd. posted a $13 million third-quarter loss on revenues that fell 7.4%, to $1.8 billion. Analysts expect Reynolds Metals Co., which lost $55 million on sales of $2.6 billion in the first half, to remain in the red. "There's too damn much material," says Alcoa Chairman Paul H. O'Neill.

The bad news is far from over. Since the Russian avalanche began in late 1990, U.S. aluminum makers have cut production by 796,000 metric tons, or of capacity, and laid off 1,300 employees. But prices continue to fall. Meanwhile, the European Community, after cutting production by 320,000 metric tons, is trying to limit shipments from Russia to Europe—detouring more of the metal to North America.

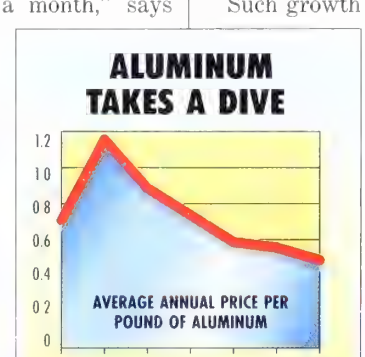
With aluminum makers facing a painful war of attrition, they're now hoping that multilateral trade talks, scheduled for Oct. 21-22 in Moscow, will push the Russians to match Western cutbacks. "If we cut more, we put highly paid American workers with good benefits on the street, so that [the Russians] can run their old plants, with workers who make 15 or 20 bucks a month," says Bond Evans, CEO of producer Alumax Inc.

For now, however, North American aluminum companies have little choice but to hunker down. Alcoa has slashed its R&D budget and laid off 400 workers at headquarters. Reynolds is busy selling off nonstrategic businesses, from ice-cream-bar maker Eskimo Pie Corp. to an Australian gold mine. And last month, Alcan's board, eager to restructure the company, retired CEO David Morton a year early, replacing him with his No. 2, Jacques Bougie. Bougie's mission, he says, is to cut costs enough to make the company "one of the lowest-cost aluminum producers in the world."

Meanwhile, capacity outstrips demand in the companies' core markets. Take aluminum cans. Beer consumption falling in the U.S., and many soda dr ers are ditching aluminum cans for ger plastic bottles. What's more, makers are working with ever-thin grades of aluminum, which means s mer shipments. The upshot, says Th as Van Leeuwen of CS First Bos Group Inc.: "There's going to be a fight for volume." In an attempt to cure its market for can-sheet, Reyn has announced plans to buy Miller B ing Co.'s can plants.

BULLISH TRADERS. To be sure, alumin makers do have a few growth mark Detroit is one. Aluminum's share of auto market continues to grow: The erage car contains 191 pounds of metal, up 47% in a decade. A good y in Detroit is buoying North Ameri shipments, which are up 4.7% this y And President Clinton's new pact w auto makers to produce fuel-effic cars should boost demand further.

Such growth prospects are one rea Wall Street has sta relatively bullish on minum companies, spite the havoc f Russia. Alcoa stock, instance, barely cuped with its dis pointing third-qua earnings, staying in mid-60s, 10 points ab its 12-month low. investors' patience certainly be tested the companies fail reach an accord w Russia.



To try to clinch a deal, aluminum c panies are offering technical and e ronmental assistance to the Russi and even an aluminum-foil joint ven in Siberia. North American produc are clearly eager for relief. The alte tive, they fear, might be a long, pai slide like the one that hit Big Steel.

By Stephen Baker in Pittsb

Global Performance

Capital Raising

Over $96 billion in new capital raised for clients worldwide in the first 9 months of 1993*

*Source: Securities Data Company

CS First Boston

One Firm One Name One Mission

Commentary/by Michael Mandel

LOST IN THE WILDERNESS OF ECONOMIC THEORY

If economics were a sport, the U. S. could retire the championship trophy. For the fourth straight year, and for the 11th time since 1980, the Nobel prize for economics was taken home by economists from American universities. The winners this year are two top economic historians: Robert W. Fogel of the University of Chicago, best known for his controversial study of the economic efficiency of slavery and for his work on the early American railroads, and Douglass C. North of Washington University in St. Louis, who has written on the evolution of feudalism, markets, and other economic institutions.

Ironically, none of the recent prizewinners comes from the ranks of the macroeconomists, the group that traditionally takes center stage in times of economic distress. Since 1990, when the latest string of American prizes started, the economy has grown at an anemic 1.2% rate, and the ranks of the unemployed have surged by more than 1.5 million. Yet during this period, the awards have been given for work in joint fields—law and economics, finance and economics, family and economics, history and economics. Macroeconomics—historically the core of the profession—has been ignored by the Nobel prize committee for the past six years.

BLACKBOARD BUNGLE? For good reason. The lack of recognition accurately reflects the current dismal state of macroeconomics. Ever since the mid-1970s, when Keynesian ideas came under attack, macroeconomists have been flailing about in all different directions. Monetarists have jostled with supply siders, who fought with neo-Keynesians, who argued with rational expectations theorists. "The problem with macroeconomics is that it changes every five years," says Donald McCloskey, an economic historian at the University of Iowa. Macroeconomic "research has been very confused and very controversial, he says." Adds James S. Heckman, a labor economist at the University of Chicago: "There's a real sense that macroeconomists have gotten into a mode of talking to each other and not addressing serious issues."

Indeed, for most intents and purposes, macroeconomists have abdicated their responsibility to explain the ups and downs of the business cycle—the stuff like unemployment and recessions that people really care about. Instead, says McCloskey, the core of macroeconomics has become "blackboard speculation" that deals with abstract mathematical theories rather than useful applications.

One of the consequences of this confusion is that almost all econometric models used to forecast the U. S. economy still depend on insights from a quarter-century ago, developed by such luminaries as 1980 Nobel Laureate Lawrence R. Klein, now 73. "To large extent, macroeconomists have tried to improve macro forecasts macro models," says Olivier Blancha a leading macroeconomist at the Massachusetts Institute of Technology. deed, forecasters are viewed as seco class citizens within the professio even though government and busine es depend on forecasts to guide po and investment decisions.

By contrast, many of t recent Nobel winners—a cane as their research top may sound—have been doi research with more practi applications. For examp before his work on slave Fogel collected evidence th the rapid growth of the U. railroads in the 1800s w not necessary to drive Ame ca's economic developme When brought forward i today's world, this conclusi suggests developing cou tries don't need to pu money into a "leading s tor," such as steel, autos, semiconductors, to ignite e nomic growth.

GROWTH PATTERNS. Nor too, has looked to apply research in recent yea traveling to Russia, Easte Europe, and Latin Amer and offering advice on h to create new economic in tutions in those countri What such regions ne most, according to North, a "secure, well-enforced pr erty rights that will all people to make investment

But no matter how wort the latest Nobel winners a it's sad to realize that th still is a gaping hole at the center economics—where macroeconom used to be. For policymakers and or nary people looking for guidance what to do next, there is precious lit to be found. "I don't see many signs change," says MIT's Blanchard. "I w I saw them, but I don't." More's t pity.

Economics Editor Mandel has a PhD economics from Harvard University.

FOGEL: HISTORIC LESSONS

NORTH: USEFUL RESEARCH

HOW MACROECONOMICS WENT ASTRAY

THE 1960s Hubris overcomes the profession, and macroeconomists prematurely declare the death of the business cycle.

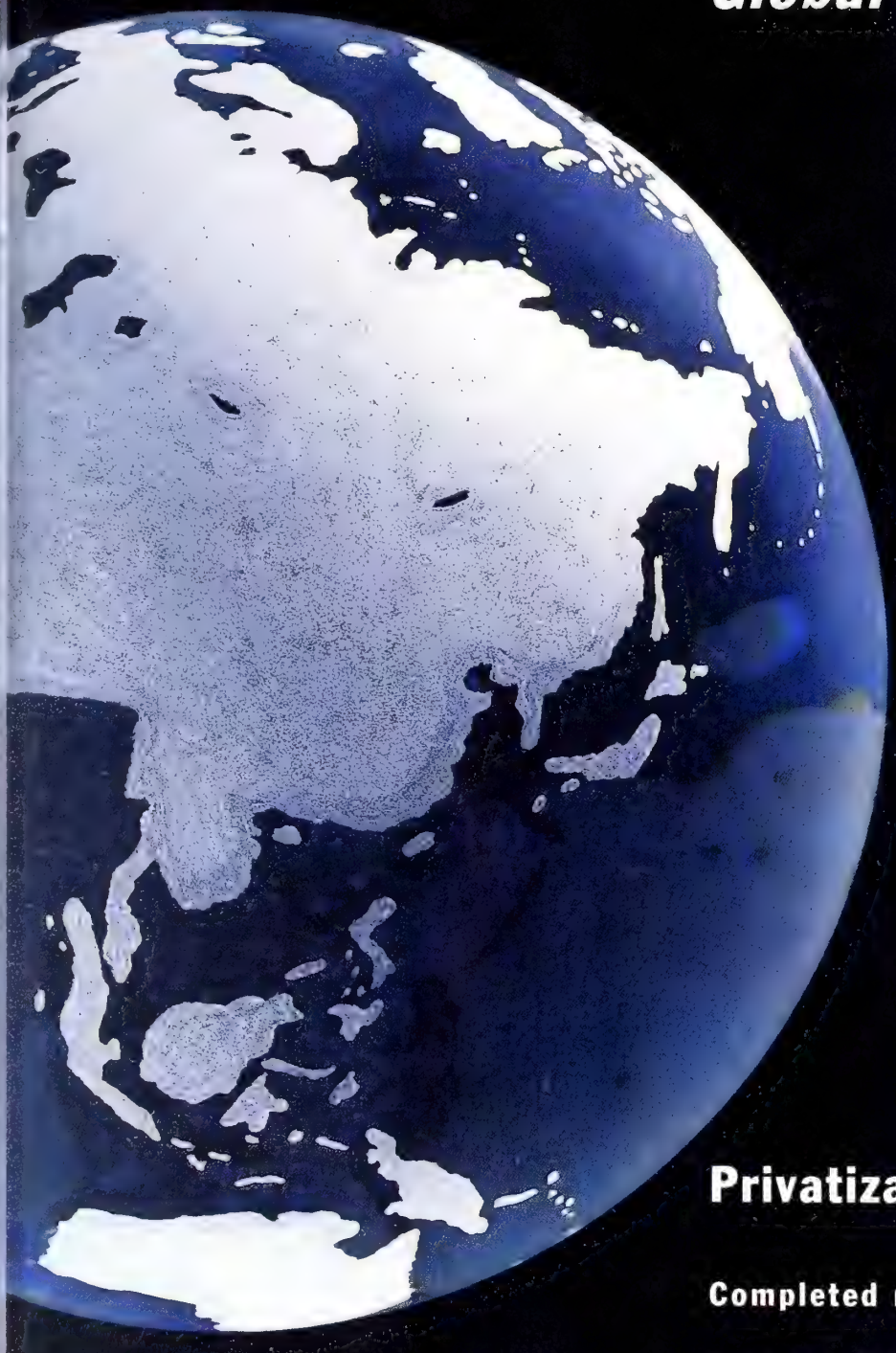
THE 1970s Keynesianism comes under attack when macroeconomists are surprised by the "theoretically impossible" combination of slow growth and high inflation after 1974-75 recession.

THE 1980s A fragmentation of the faithful occurs as monetarists champion tight money to lower inflation, and the recessions of the early 1980s follow. Supply-siders, meanwhile, advocate big tax cuts, and enormous budget deficits ensue.

THE 1990s Confusion reigns: Keynesians bemoan the lack of fiscal stimulus, monetarists worry about excessive money growth, and rational expectations theorists doubt the efficacy of government policy.

DATA BUSINESS WEEK

Global Performance



Privatizations

Completed more privatization transactions in 1992 and 1993 than any other investment bank*

*Source: Securities Data Company

CS First Boston

One Firm One Name One Mission

EDITED BY KEITH H. HAMMONDS

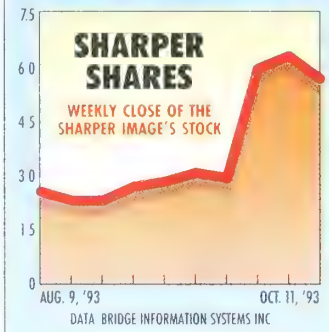
AN UNKIND CUT FROM WAL-MART

▸ Suddenly, everyone claims to be the consumer's best friend. An Arkansas judge on Oct. 11 decided that Wal-Mart Stores had illegally priced some pharmaceutical products below cost with the intent of injuring competitors. The judge awarded three pharmacies $289,407, or triple the actual damages he said they had suffered. The attorney for the plaintiffs hailed the decision as assurance of "effective competition" against Wal-Mart and other powerful retailers. Wal-Mart, which will appeal to the Arkansas Supreme Court, could face similar suits in 22 other states.

THE MINIMUM WAGE MAY GET A BOOST

▸ The Clinton Administration's plans to raise the minimum wage are getting richer. Labor Secretary Robert Reich said on Oct. 12 that the wage could go to $4.75 an hour with "no negative employment effects whatsoever." The 50¢ hike is twice what Reich proposed in a memo to the White House earlier this year. But the Labor chief left himself an out, suggesting that some of the hike could be in the form of mandated health-care coverage.

CLOSING BELL



THE RIGHT FOCUS AT SHARPER IMAGE?

Shares of Sharper Image, purveyor of yuppie gizmos (example: electronic snore detector, $60) tripled momentarily after the retailer announced plans for a TV home-shopping pilot on Sept. 27. The big question remains: What do the value-conscious 1990s hold for a company that sees indulgence as a long-term trend? Founder Richard Thalheimer thinks product mix and marketing are the answer: He has added cheaper items to his catalogs and 84 stores and is selling wares in Bloomingdale's and Dillard's. Next: a "health and longevity" catalog. But same-store sales are down, and Sharper Image has lost money in 7 of its last 14 quarters.

SADDER DAYS AT WOOLWORTH'S

▸ Retailer Woolworth is gasping for air. On Oct. 13, the company announced that it will close some 970 general merchandise and specialty stores in the U.S. and Canada. The move will eliminate 13,000 jobs from Woolworth's payroll and force the company to take a $775 million pretax write-off against 1993 earnings. The restructuring is Woolworth's second in as many years. By the end of 1993, the retail chain will have shuttered 1,200 stores. At the end of 1992, Woolworth had nearly 9,000 outlets. The move prompted Duff & Phelps to place Woolworth's A+ debt on credit watch. Woolworth stock fell ¼, closing at 26⅛ on Oct. 13.

CREATIVE AUSTERITY AT ELI LILLY

▸ Count Eli Lilly as the latest pharmaceutical casualty. On Oct. 11, it announced plans to eliminate 4,000 jobs, amounting to 20% of its work force. The company is also trimming research funding at its Hybritech diagnostics business and may seek ways to push new products out of its development pipeline. Chairman Randall Tobias says that he will consider additional joint-venture research or marketing projects and may even sell some of Lilly's research projects in exchange for products that can generate revenue immediately.

HEADLINER

NICE SEVERANCE IF YOU CAN GET IT

Ten months' work for $25 million—not a bad deal for Richard Braddock, who announced he would resign Oct. 18 as chief executive of Medco Containment Services. Braddock, 51, signed on at Medco in January at the behest of his friend and longtime banking client Martin Wygod, Medco's chairman. He got a $750,000 salary plus stock options and the promise of a fee if Medco was sold. Now, Merck is buying Medco for $6 billion. Braddock had little to do with the planned acquisition, according to Wygod, who says he was "still on the learning curve." But his take is impressive—if somewhat less than the $35 million implied by his original pay agreement.

But Braddock is too a[mbi]tious to take his money [and] retire. "I'm a type A," [he] says. A director of East[man] Kodak, he's often menti[oned] as a candidate to become [the] photo giant's new [chief] executive. He [de]clines to comm[ent] on that poss[ibili]ty but is w[idely] expected to [a]nnounce for not [much] less than [the] No. 1 spot s[omew]here. Be[fore] jumping to Me[dco] the Harvard busi[ness] school graduate was presi[dent] of Citicorp; there, he [was] rumored to be a contende[r to] succeed James Robinson [at] the helm of American E[x]press. Says Braddock: [I] like to run businesses [with] a consumer bias and gro[wth] potential."

By Joe Weber in Philadel[phia]

A HEAVIER TOLL ON TOBACCO ROAD

▸ It doesn't make smoking any better for you, but cigarette prices have plunged in the past six months. And the price wars are killing tobacco company earnings. Domestic profits for the third quarter, due out on Oct. 19, will be awful, says Gary Black, an analyst at Sanford C. Bernstein. Income will be down 80% vs. a year ago at American Brands, 68% at R. J. Reynolds Tobacco, and 54% at Philip Morris, he figures. How to stanch the bleed[ing] Black thinks Reynolds m[ight] raise prices in Novembe[r] 5¢ a pack, and that P[hilip] Morris and smaller manu[fac]turers will follow suit.

CALPERS GETS TOUGH WITH ITS INSURERS

▸ The giant California Pu[blic] Employees' Retirement [Sys]tem isn't resting on its l[au]rels. After holding its pr[em]ums to a 1.4% increase [for] year—vs. 9% for emplo[yee] nationwide—CalPERS told [its] insurers on Oct. 13 to [cut] rates by 5% next year. [It] challenge for 18 health-m[ain]tenance organizations [to] serve CalPERS' 900,000 [co]vered employees and de[pen]dents: eliminate unnec[es]sary procedures and cut overh[ead] without sacrificing qualit[y]. Kaiser Permanente offi[cial] says the state's biggest [HMO] is "prepared to work [with] CalPERS" but stressed ne[go]tiations are just beginning.

Global Performance

Initial Public Offerings

YPF

(Argentina's privatized oil company)

$3.04 billion

Largest privatization

ever in Latin America*

*Source: Securities Data Company

CS First Boston

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cus·tom·er·ize \ kŭs'-tə-mə-rīze' \ *vt* **1:** to make a company more responsive to its customers and better able to attract new ones **2:** to customerize an organization's information strategy, e.g., to extend systems capabilities to field locations and other points of customer contact and support **3:** what Unisys Corporation does for a growing roster of companies and government agencies worldwide ***syn*** see CUSTOMER SERVICE, COMPETITIVE EDGE, BUSINESS CRITICAL SOLUTIONS, REVENUE GENERATION

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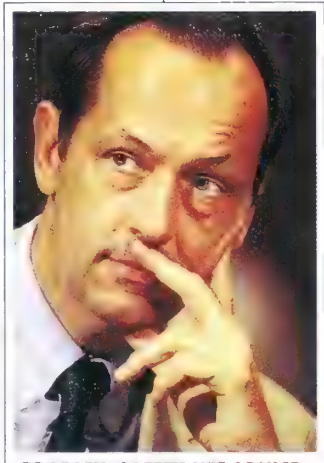
EDITED BY STEPHEN H. WILDSTROM

ENATE DEMOCRATS: CLOBBERING CLINTON ITH THE SUGGESTION BOX

he name of the game in the baronial preserve known as the U. S. Senate is "advise and consent." But since Bill Clinton came to town, the senators have been doing a lot lvising and the President most of the consenting. In pur- their prerogatives, the 56 Democratic senators have e Clinton look weak—hurting his chances of becoming irst successful Democratic President in a generation.

ıe Senate has deluged the White House with helpful , some of which look more like demands. Armed Servic- ommittee Chairman Sam Nunn (D-Ga.), a h critic on military issues, is now offering an to restructure the U. S. tax system. ropriations Committee Chairman Robert yrd (D-W. Va.) wants to force the with- al of troops from Somalia. Finance Com- ee Chairman Daniel P. Moynihan (D-N. Y.) d the financing of Clinton's health-care a "fantasy." Senator David L. Boren (D- .) forced Clinton to rewrite his budget, voted against it anyway. And Senator Bradley (D-N. J.) offered advice on building w economic safety net.



BRADLEY: SAFETY-NET ADVICE

VELING. Much of this was inevitable. "The te is a collection of very big egos," says ical scientist Stephen Hess of the Brook- Institution. "A lot of senators feel they are qualified to be President than the Presi- ." Especially the Democrats. In the Rea- Bush years, they acted as a shadow government, speaking conomics, foreign policy, and other issues, a role they are to surrender. "Nobody said that when we got a Demo- President that Democratic senators would be muzzled," one majority leadership source. "There are a number of ocrats out there who haven't yet realized [Clinton] is f ours," adds a senior Senate Democratic staffer.

it Clinton's inept handling of the Senate has made a bad tion worse. Nunn took the President's early move to discrimination against gays in the military as a personal challenge and forced Clinton to back down. Then, the President showed weakness by trimming proposed increases in grazing fees to win Western support for his budget. Such miscues were compounded by personal slights: Several committee chairmen learned of major Clinton proposals through newspaper leaks rather than White House courtesy calls. "If the President had come in very surefooted, the Senate would have been much more cooperative," contends one Senate staffer. "But things began to fall apart, and everyone began to free-lance."

FLESH WOUNDS. Many of the senators say they only want to help. Bradley's economic-security proposal combines some traditional Democratic ideas. In an Oct. 7 speech in Washington, Bradley called for universal health insurance, pension protection, and lifetime education and retraining. The goal, he says, was "to push the Administration to be a little clearer about their objectives over the next two or three years. I hope they see me as pushing them toward their better impulses."

So far, Clinton has suffered mainly flesh wounds from Senate rebellions. He has won approval for nearly all of his first-year initiatives. But his luck may not hold. Successful Presidents, from Franklin Roosevelt to Ronald Reagan, have imposed their will by making senators think twice before exercising their independence. "There's no fear factor," says Republican consultant Eddie Mahe of Clinton and the Senate. "Whenever they have any urge to bang him around, they just do it."

So far, Clinton would rather cajole than confront. He's frequently calling senators to chat and is currying favor with coveted White House social invites. But keeping Democratic barons in line will require stronger stuff. If Clinton is to make his agenda prevail over the ego eruptions of Senate Democrats, he must be prepared to crack some heads on Capitol Hill.

By Richard S. Dunham

ITAL WRAPUP

FED

greement between committee chairmen in the House and Senate isually all it takes to send a bill ging its way toward passage. But n the combined support of House king Committee Chairman Henry Gonzalez (D-Tex.) and Paul S. Sar- es (D-Md.), who is expected to take r the Senate banking panel after retirement of Michigan Democrat ıald W. Riegle Jr. next year, prob- won't be enough to move legisla- that would put the Federal Re- ve under tighter political control. ızalez called Fed Chairman Alan enspan before his committee on Oct. 13 to discuss a measure that would make the Fed's deliberations more public. In a more radical change, the bill would also take away the 12 regional Fed banks' power to name their own chief executives, making them Presidential appointees instead. Both ideas are old Democratic chestnuts but are winning even less support than they have in the past. And President Clinton knocked the wind out of Fed reformers' sails by coming out against the bill. Why so little enthusiasm for the always popular sport of Fed bashing? It has been four years since the central bank last raised interest rates, explains an Administration official, "so no one is mad at it."

DEADBEATS

A new law relaxing restrictions on political activity by federal civil-service employees also makes it easier for businesses to collect some bad debts. The old law prohibited attaching federal workers' wages for any purposes except nonpayment of child support or debts owed to the government. A provision of the Hatch Act amendments signed into law Oct. 6 allows creditors to seek a garnishment order against any federal employee—including members of Congress. Senator Larry Craig (R-Idaho), a co-sponsor of the law, says restrictions on collections cost creditors $500 million a year.

PRIME MINISTER CAMPBELL: ON OCT. 25, ANGRY VOTERS MAY TOSS HER OUT

THE LIBERALS' CHRETIEN SAYS HE WOULD RENEGOTIATE THE FREE-TRADE PACT

PARLIAMENT HAS RUN UP A DEBT BURDEN THAT'S ALMOST UNMANAGEABLE

THE NEW CANADA: DAZED AND CONFUSED

On election eve, it grapples with its economy—and its identity

It's just five years old, but C-Mac Industries Inc. is one of those high-tech successes that entrepreneurs dream about. The producer of integrated microcircuits expects sales to almost double—to some $150 million this year. C-Mac President Dennis Wood says he's selling to "300 of the world's top 500 producers of electronics," who use his products for ...ications in the automotive and medi... ...lustries, among others. So C-Mac ...eiving all right, but not in Silicon ... Instead, it is doing just fine in, of all places, Sherbrooke, Quebec.

Canada, long known for its dependence on timber and grain, is developing a new entrepreneurial class that's dotting the landscape with startup companies and reviving old ones. This transformation of the economy stems directly from the 1989 Free-Trade Agreement penned by former Prime Minister Brian Mulroney, which wiped away most of the restrictive tariffs between the U. S. and Canada. Dropping these barriers goaded Canadian industry into its most dramatic restructuring since World W... II. The result: a new Canada, with e... nomic growth in the first half of 1993 ... 3.4%, more than twice as fast as in ... U. S. "Canada has the potential to gr... faster than any of the other G-7 indus... al powers for the rest of the decad... says Edward Neufeld, chief econom... for Royal Bank of Canada.

FREE-TRADE PAIN. Yet Canada has w... this success at enormous social co... With protection from foreign riv... gone, inefficient Canadian compan... have shed more than 300,000 manuf... turing jobs since 1988—some 15% of t... total. The resulting jobless rate of 11.... places intense pressure on Canada's g... erous welfare programs. To preserve t... social contract, the government has r... up a net debt burden that now tot... 90% of gross domestic product. Like t... U. S., Britain, and even Sweden, Cana... is encountering firsthand the brutal ... alities of the global economy.

Little wonder, then, that in nation... elections this Oct. 25, voters seem rea...

give Mulroney's Conservative Party Kim Campbell, his successor as ne Minister, a thorough thrashing all the free-trade pain they inflicted. the Tories are not the only victims oters' wrath. The Liberals, their tranal archrivals, lead the polls but not win a solid majority. Instead, est votes are piling up rapidly for splinter groups: The separatist Bloc bécois and the Reform Party, which ts drastic spending cuts.

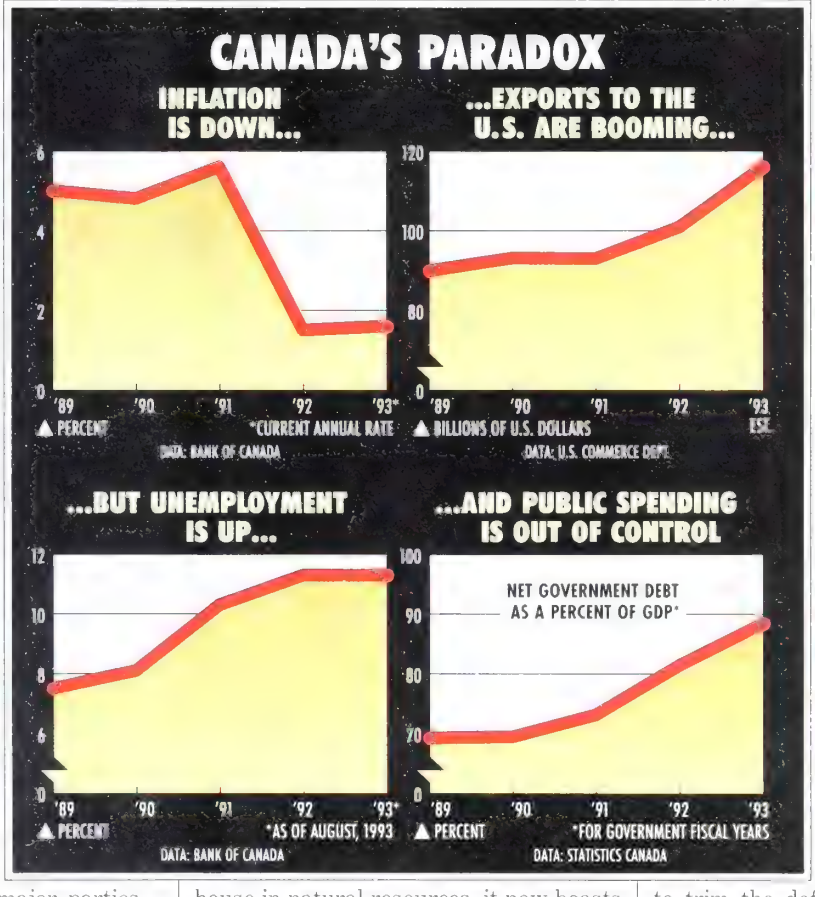
ith Canada's electoral politics in an ıar, it would be easy to conclude that y Canadians are a step away from ing Mulroney's legacy and demanda recreation of their country's once , protected economy. The sense of ivation is certainly e. "The vast major- eel they are worse than five years " says Bob White, ident of the Canadi- Labor Congress. ge Karatsoreas, a k immigrant who s a hair salon in To- o, says he's "very ied about the loss jobs," especially that may make it er for his two teens sons to get work. it like other Canadi- Karatsoreas har- another, opposite ng: "Canada has living beyond its ns," he says. This ivalence is the key nderstanding Cana- mood now: a sense nger and fear, but a reluctant realiza- that there's no ng back the new ıda of free trade usiness and great- economic insecurity ordinary citizens.

eflecting this ambivce, only one of the major parties—ocialist New Democrats—favors abting Mulroney's free-trade deals increasing social spending. Yet the Democrats appear destined for virannihilation in the upcoming elecdismissed by most voters as wildly alistic. And although the Liberals r some renegotiation of free trade, have softened their once strident sition.

PUT BOOST. Nor are the Liberals ng about undoing most of the other planks of Mulroney's revolution, h also loosened Ottawa's grip over sectors of the economy, including ommunications, energy, and transation. The result has been an economic transformation that is impossible to reverse, and that has changed the corporate mind-set in Canada. Only a few years ago, "globalization and competitiveness were just concepts to many executives," recalls Paul Tellier, CEO of Canadian National Railways. Today, "most recognize we have to take radical measures to cope."

There's growing evidence the measures are paying off. Canadian manufacturing productivity jumped 4.2% last year—five times the average annual pace of the previous seven years. Meanwhile, inflation is down to 1.6%, one of the lowest rates in the industrial world.

The restructuring goes beyond cost-cutting. While Canada remains a power-



house in natural resources, it now boasts its share of high-tech manufacturers. Already, the Canadian computer industry employs 62,000 people, twice as many as the oil and gas industry.

Even grungier manufacturers are excelling at exports. Take Magna International Inc., Canada's largest auto parts producer. Heavy debt and the auto downturn had Magna on the ropes. But after drastic restructuring, earnings soared 43%, to $105 million, on record sales of $1.95 billion in the fiscal year ended July 31. About 75% of Magna's sales go to the U. S.

As the restructuring continues, Canada is well poised for a pickup in the world economy. Ultimately, predicts Lloyd Atkinson, chief economist at Bank of Montreal, "this could lead to improved living standards the likes of which we've never seen."

Many Canadians, reluctantly or gladly, recognize the overall benefits of free trade to business and the economy. But they remain bitterly divided about the next, necessary stage of Canada's transformation: taming the deficit and restructuring social programs, including national health care. Many conservatives such as Calgary businessman Barry McDonald have ditched the Conservative Party in favor of the Reform Party, which pledges to eliminate the $27 billion deficit in three years. McDonald blames Canada's welfare state for that number: "So many programs have been out of control and mismanaged."

FRACTURED. Yet others want to preserve the social programs and deeply regret the peril they face on account of Canada's huge debt. "I think the direction we've been going in is very destructive," says Brian Gifford, the maintenance supervisor for St. Joseph's Children's Center in Halifax, N. S. "Free trade has destroyed jobs and created downward pressure on social programs."

This unresolved debate on the deficit is not going to get clearer anytime soon. The surging support for the Bloc Québécois and the Reform Party may produce a Parliament so fractured that the resulting minority government won't be able to tackle the deficit. True, Liberal front-runner Chrétien has promised to trim the deficit, provided he cobbles together a willing majority. But that pledge is vague compared with his popular plan to create jobs with a $4.5 billion infrastructure program.

Yet if free trade has taught Canada anything, it's the need to adjust to new realities, however unpleasant. There's no doubt that Canada is facing a day of reckoning, and whatever the electoral outcome on Oct. 25, the next government won't be able to duck the debt problem forever. The only question—and it's a big one—is how messy and painful things will get along the way. The new Canada faces plenty more turmoil before that question is answered.

By William C. Symonds in Toronto

ALAN BASSETT FOR BW

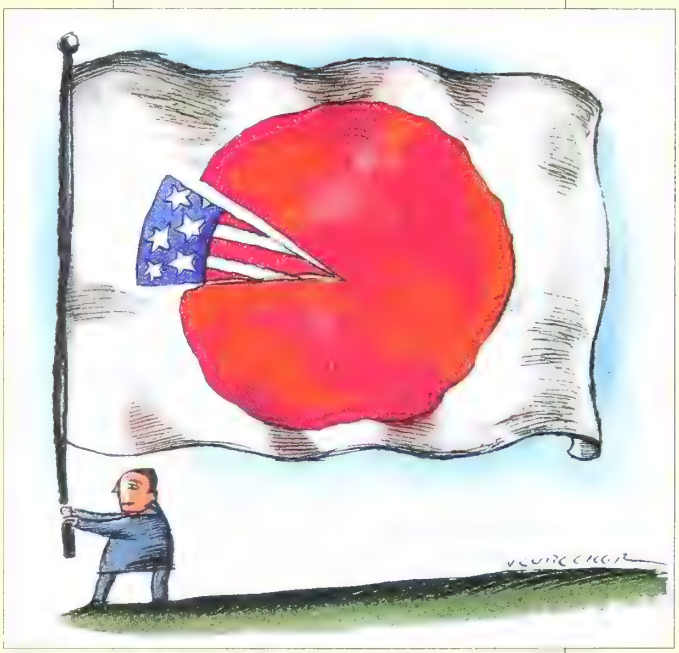
Commentary/by Neil Gross

CRACKING JAPAN: WITHOUT TARGETS, IT'S JUST TALK

Earlier this month, a band of prominent economists sent an open letter to Bill Clinton and Morihiro Hosokawa, urging the President to forget about numerical trade targets and advising Japan's Prime Minister to resist them. Let's hope they don't listen. Snaps David Hytha, managing director of wireless systems at AT&T Japan Ltd.: "Economists have yet to unveil a model that makes sense of Japan."

Well put. For two decades, Japan's incessant trade surpluses have defied every macroeconomic prediction and prescription. They have damaged key areas of U.S. manufacturing and soured American goodwill toward Japan. Even Japanese now question the wisdom of past trade policies. "What do people mean by Japan's success in America?" muses Takashi Kiuchi, chairman of Mitsubishi Electric America Inc. "We have very little support in the U.S. community."

Despite the objections of free-market economists, trade agreements with explicit goals stand out as the only bright spots in this grim record. Take the U.S.-Japan chip accord of 1986, which combined market-opening steps with a goal of 20% foreign share in Japan. Before the pact, recalls William O. Howe, an Intel Corp. director and former president of its Japanese unit, "there was a lot of sentiment that Intel would never make a dime in Japan, so why bother?" In the accord's wake, combined U.S. chip sales in Japan have tripled, to more than $3 billion.



MUCH TO DO. No wonder American managers in other high-tech sectors are intent on duplicating that success. "Measurable results" has become a rallying cry for U.S. negotiators in the so-called Framework talks in Tokyo in mid-October. As the discussions advance toward a January deadline, the U.S. will experiment with various approaches for measuring success in areas such as computers, telecommunications, and medical equipment.

In some sectors, nothing more is needed than strengthening an existing agreement. In 1992, for example, Japan pledged to give American computer companies a fairer crack at Japanese government contracts—a market worth as much as $10 billion a year. The figure includes billions of dollars worth of high-end gear for government offices. But the accord should be expanded to include thousands of personal computers Japan intends to install in public schools throughout the country. Some of those will be paid for by a slice of Japan's new, $120 billion pump-priming package. Companies such as Apple Computer Inc. and IBM argue that 40% of those outlays could be devoted to buying American PCs, which are competitive by any measure of price and performance.

Market-share goals may be the only way to tackle emerging-technology areas that will soon account for billions in sales. Take the fast-moving field of digital telecommunications. Over the next two years, Japan's postal authorities will start parceling out radio frequencies for the next generation of digital cordless telephones, known as handyphones. Soon after that, quasi-governmental Nippon Telegraph & Telephone Corp. could begin massive investments in fiber-optic phone and data highways. While U.S. companies such as American Telephone & Telegraph Co. and Motorola Inc. are leaders in both areas, neither superior technology nor marketing brilliance guarantees results. Only a bilateral deal is likely to do so. "You obviously can't set sales goals for products that don't exist," says a source close to the Framework talks. "Market-share targets may be the only solution."

Setting such targets is less of a problem than economists may think. Typically, negotiators study U.S. industry performance in a "neutral" market, where American and Japanese companies are evenly matched, and then contrast it with how U.S. companies fare in Japan. The results are rarely satisfactory to the U.S. Today, American suppliers of ultrasound, computer tomography, magnetic-resonance imaging, and other medical gear have a 21% stake of the $10 billion Japanese market. Sounds pretty good—until you consider that America's worldwide share, not including the U.S., is 49%.

Of course, market-share goals shouldn't overwhelm other tactics. In some cases, counting share points could prevent U.S. companies from exploiting fields where they have an edge. Take cable TV and all the digital services it promises. In Japan, regulatory excesses have created a landscape of struggling cable companies as stunted as a bonsai garden. That has opened a window for giants such as Time Warner, Nynex, and Britain's Cable & Wireless, which are coaching Japan on how to diversify cable programming. Now that they're in on the ground floor, U.S. business could take off as long as there is a level playing field. "Our primary interest is deregulation," says William H. Crawley, managing director of Nynex Corp.'s Japan unit.

But U.S. products that thrive without Washington pushing for specific results in Japan are the exception. In most cases, numerical targets are the best—indeed the only—way to go.

Correspondent Gross has covered technology from Tokyo since 1983.

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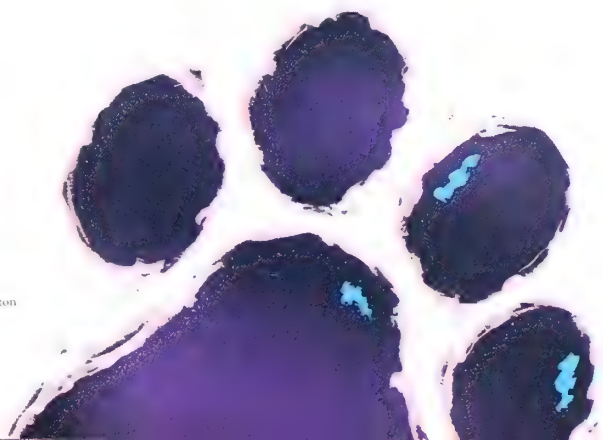


EUROPE

WHO'S BEATING THE DOWNTURN

Amid widespread Euromalaise, some manufacturers are thriving

Roberto Schisano is on the road, as usual, flitting between his home in Rome, his headquarters in Nice, and a personal office in Brussels. But these days, the president of Texas Instruments Europe is running faster than ever to keep up with what has become an anomaly in European business: growth. Computer makers and others are devouring TI's microchips, boosting sales 25% this year, to about $875 million. That has Schisano scrambling to complete by next year a $500 million expansion of his plant in Avezzano, Italy—opened just 18 months ago—while scouring Europe for a new site to open by 1996. "The market is very, very hungry," he says.

How's that again? Is this the Europe mired in 12% unemployment, with bleeding industries and rock-bottom consumer and investor confidence? Indeed, for Europe's worst recession in two decades, the end is still not in sight. Yet TI is not a lone beacon on the dismal economic landscape.

From mobile phones to pharmaceuticals and pay-TV, some companies are posting surprising sales and profits (table). These winners have spent years restructuring, refocusing their strategies, or spending heavily on innovative products—or a combination of all three. Their success offers hope to others still waiting to benefit from Europe's single market.

Take Stockholm's L. M. Ericsson. After slashing worldwide payroll by 11% over three years, to 64,000, the leader in mobile-phone network equipment is adding 2,000 engineers and other professionals in Sweden this year and investing $220 million in new facilities. Likewise, Franco-Italian chipmaker SGS-Thomson Microelectronics is hiring 2,000 workers worldwide, including 180 researchers at a new chip-design center in France. "We're one of the rare industrial firms creating new [skilled] jobs in Europe," says SGS President Pasquale Pistorio. Like TI, Intel Corp., and others, SGS is riding a boom in chip demand from makers of cheap personal computers and telecommunications gear.

Another surprise is this year's 35% surge in mobile-phone sales, expected to hit nearly 2.5 million units. A new European digital standard has ignited fierce price rivalry that, in turn, is unleashing huge pent-up demand. So despite falling phone prices, producers such as Ericsson, Motorola, and Finland's Nokia are cleaning up on volume contracts.

Innovation is also the key to beating the malaise in Europe's $65 billion drug industry, battered by government moves to cut health-care costs. Profits of Switzerland's Roche Holding Ltd. are expected to soar about 26%, to $1.7 billion this year, thanks largely to new drugs emerging from stepped-up research and development in the mid-1980s. "We're harvesting our investments of the past," says Chief Financial Officer Henri B. Meier. And Sweden's Astra is set to report an even steeper rise, led by sales of its anti-ulcer drug Losec. BNP Securities analyst Ian Broadhurst expects Astra's pretax profits to jump 35%, to $860 million, on a 40% sales spurt, to $2.7 billion.

HOT TUBS. Recession clearly plays to the strengths of industries such as pay-TV channels, which offer a cheap treat for recession-stricken consumers. After merging two rival networks in 1990 and cutting staff by nearly 80%, Rupert Murdoch's British Sky Broadcasting turned its first operating profit—$93 million—for the year ending June 30, on a 63% sales jump, to $574 million. Subscriber growth at channels in Belgium and Spain will also kick in profits for the first time this year at Canal Plus in Paris, "proving that pay TV is a good business even in a depressed market," says Bruno Decour, vice-president for marketing.

The best managers are plowing back profits to reap even bigger gains when Europe revives. Sweden's Svenska Cellulosa, with pretax profits nearly tripling to around $163 million, is investing for the first time in years. Much of a $3 billion capital budget will go into a low-cost British newsprint mill to compete against imports from North America.

Still, such positive signs don't spell the end to Europe's frantic restructuring. Even Texas Instruments' Schisano plans to cut 10% of TI's European payroll of 6,000 next year as a cushion against the next cyclical downturn in chips. "Even in good times, we have to constantly rethink how we're deployed," he says. That should keep the tireless Italian on the road for some time to come.

By Jonathan B. Levine in Paris, with Julia Flynn in London, Karen Lowry Miller in Bonn, and bureau reports

NO RECESSION AT THESE OUTFITS

SWEDEN

ERICSSON Cost-cutting and new digital technology are expected to more than double the mobile-phone maker's 1993 profits, to $228 million, on a 28% sales jump, to $7.5 billion

SVENSKA CELLULOSA Lower costs and new diaper products are likely to triple paper producer's 1993 profits, to $163 million, on a 6% sales increase

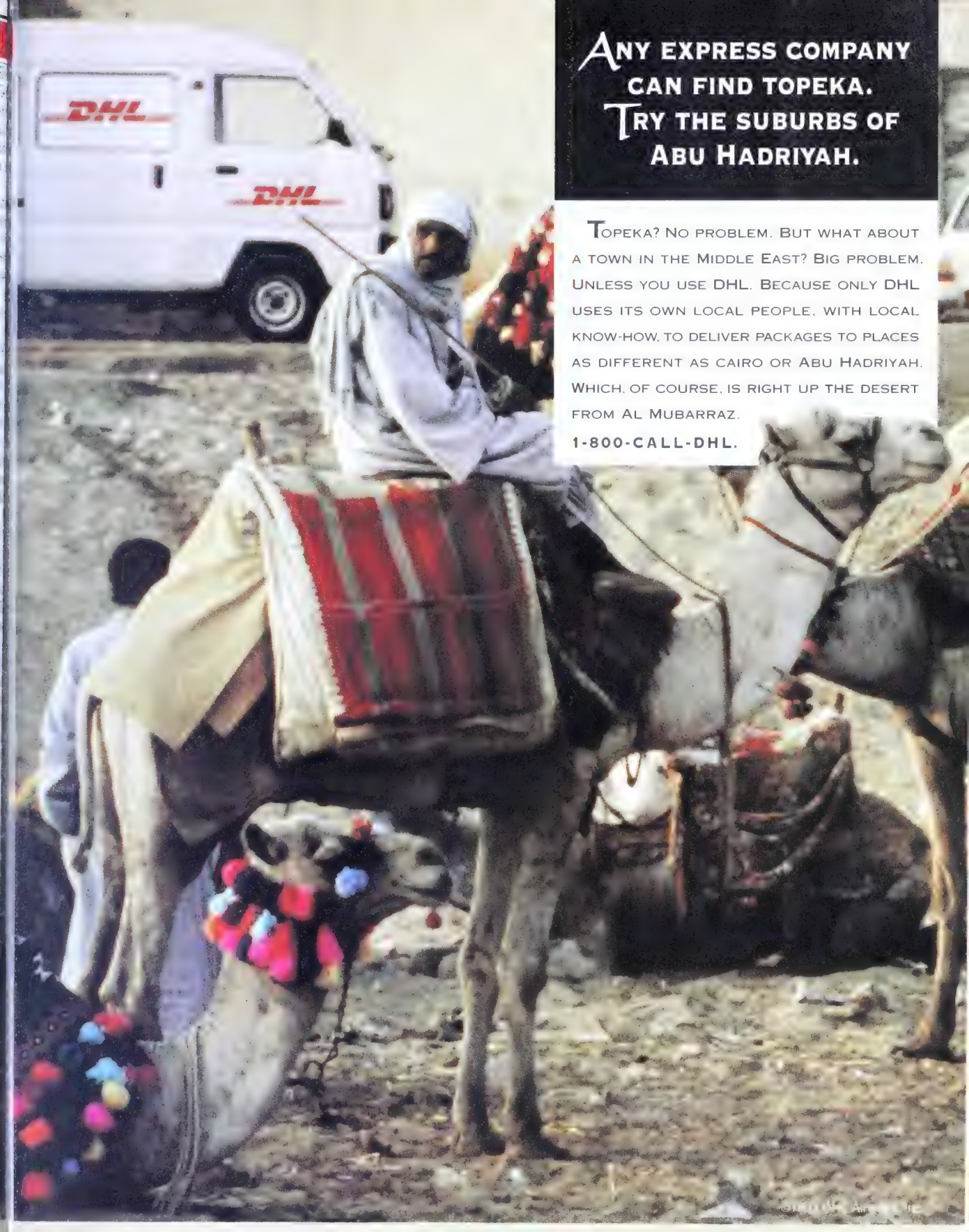
SWITZERLAND

ROCHE HOLDING Payoff from heavy drug R&D spending, plus financial gains on cash hoard, push 1993 profits up about 26%, to $1.7 billion

FRANCE/ITALY

SGS-THOMSON MICROELECTRONICS Booming demand for chips is sparking an estimated 25% sales rise this year, to $2 billion

DATA: COMPANY REPORTS, MERRILL LYNCH & CO., BNP SECURITIES, MORGAN STANLEY & CO., NATWEST SECURITIES CORP



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IN MOSCOW, IT'S THE DAY OF THE GENERALS

As a fierce gun battle raged at Moscow's central television center during the attempted hard-line coup early on Oct. 4, Boris Yeltsin was at Russian military headquarters, pleading for the generals to save his presidency. Yeltsin's government teetered on the brink for several hours while the army brass debated whether they had the legal right to fire on Russian citizens and whether they should even take sides in the political crisis. Finally, the military decided to send in elite units on certain conditions: They would attack only the Russian White House, the well-armed seat of the insurgent Parliament. They would not fire upon unarmed protesters.

Some Yeltsin aides, including his economic reform architect Yegor T. Gaidar, were miffed at the military's wavering. But most analysts say the White House operation has given the security establishment a huge bargaining chip in its future dealings with Yeltsin. Even before the coup, he seemed to be paying much closer attention to military wishes. Yeltsin, for example, backpedaled on a comment that he would not mind if Poland joined NATO, a heretical thought just a few years ago. He also ruffled Western feathers by saying that Russia needs a larger force than agreed upon previously to protect its strife-torn borders in the Caucasus. Meanwhile, observers report that Russian military commanders there and in embattled Tajikistan and Azerbaijan are acting with unexpected boldness and autonomy.

TOP PRIORITY: BETTER SALARIES, FOOD, AND BILLETS

WILD CARD. The military's new clout comes as the armed forces are in the midst of a long-delayed post-cold war rebuilding. Envisioned is a leaner, more professional, and technically capable force of about 1.5 million troops, down from 2.5 million today. And it is unlikely that the huge Soviet military-industrial complex will be revived. But to keep them on his team, Yeltsin likely will have to sign off on some of the generals' pet projects, such as producing the kinds of high-tech weaponry that helped the U. S. in the gulf war.

Yeltsin also will feel heat from the top brass to improve the miserable conditions that conscripts have endured in the past couple of years. Bad food, pay, and lodging have sent draft evasion soaring to as high as 75% of those eligible. In fact, some analysts say that Defense Minister Pavel Grachev had a hard time mustering an adequate force to storm the White House. Just three days after that mission succeeded, Yeltsin ended student draft deferments, and more goodies appear to be on the way. "The army is now expecting better salaries and better accommodations," says Jeffrey Fistein, deputy Russian director of Radio Free Europe/Radio Liberty Inc. in Munich.

A more assertive military seems likely to concentrate on beefing up Russia's regional role rather than indulging in the far-flung adventures of the cold war era. The likely vehicle will be the Commonwealth of Independent States, which suddenly is looking a lot more valuable than a few months ago. Economic problems and civil war have brought recalcitrant Ukraine and Georgia to heel. In coming months, a spiffed-up Russian army could be settling the many bloody conflicts in the former Soviet Union—on Moscow's terms.

For the U. S. and other Western countries, the truth is that a stronger Russian military is better than a demoralized, disorganized force, especially when control of Russia's still-vast nuclear arsenal could be at stake. Analysts don't expect a newly energized military to start reneging on arms-control treaties or threatening Europe. But Washington may have to brace itself for tougher moves on Russia's southern periphery.

By Peter Galuszka in Moscow

GLOBAL WRAPUP

FRANCE'S BIG SALE

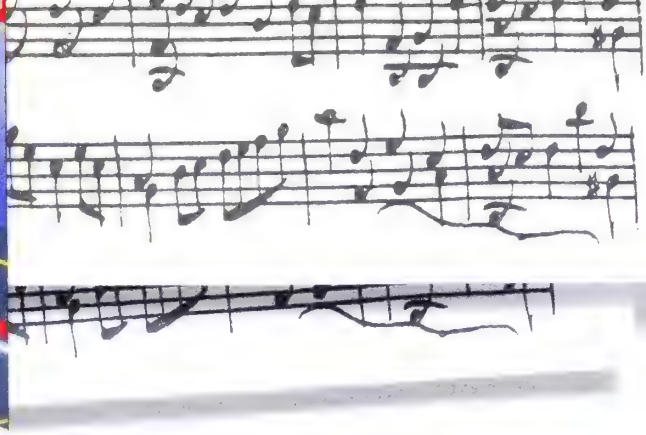
Europe's biggest-ever privatization bodes well for the dozens more to come as governments across the Continent slim down. France's $5 billion sale of Banque Nationale de Paris, which closed on Oct. 12, was gobbled up by institutions that signed up for 12 times their allotted shares. The goal of finding 1 million individual buyers was topped by 50%. Small wonder: Shares went for 14% below market. Next on the 21-company list are Rhône-Poulenc, Elf Aquitaine, and Union des Assurances de Paris, which just wrapped up a $4.3 billion deal to acquire Germany's third-largest insurer, Colonia, ending a four-year-long battle with Groupe Suez for control of the company.

PYRRHIC WIN IN GREECE

The victory of Andreas Papandreou's left-wing PASOK party in Greece's general elections on Oct. 10 could spell more trouble for Europe's weakest economy. Papandreou intends to put on ice such ambitious privatization programs as the sell-off of state telecommunications company OCE and oil-refining interests. Such sales would have raised over $1 billion this year and more next year, allowing Greece to cut the EC's worst budget deficit. The PASOK victory also could put the brakes on foreign investment.

GERMAN COURT

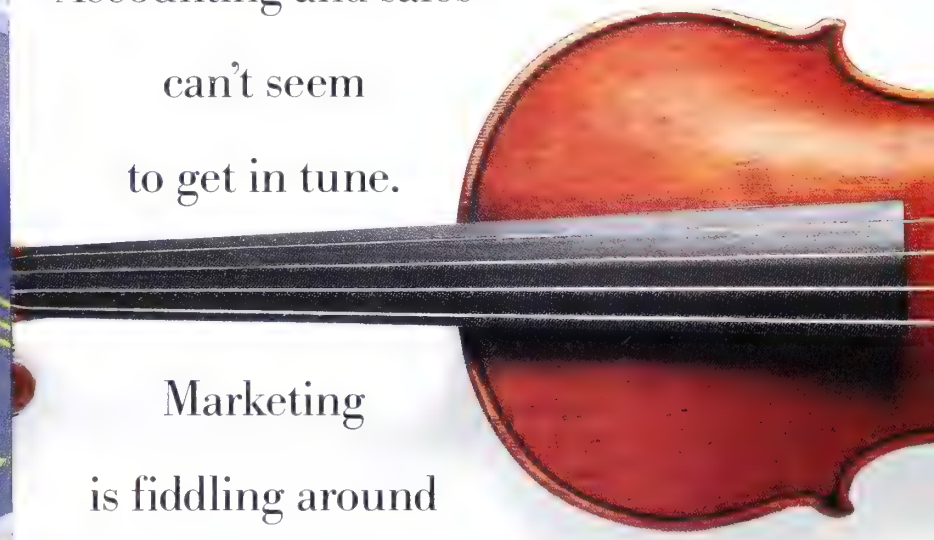
Germany's Constitutional Court ruled on Oct. 12 that Bonn can sign the Maastricht Treaty for closer European political and monetary union. But the decision was far from a big victory for backers of European unity. True, the last holdout among the European Community's 12 members is now in the Maastricht fold. But the court in effect said that such controversial issues as giving up the German mark for a Eurocurrency would have to be put before Parliament, which might well reject them. It also reserved the right to intervene if Brussels bureaucrats overstep their bounds



Accounting and sales

can't seem

to get in tune.



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INFORMATION TECHNOLOGY ENTERS A SECOND ERA

any business leaders are working hard to reinvent their enterprises. The organization of old is deep trouble. The command and control hierarchy that came out of the church and military nturies ago is often bureaucratic, inwardly focused, unresponsive, unproductive, and stifling.

THE INSPIRATION

THIS SPECIAL SUPPLEMENT IS BASED ON OVER $6 MILLION OF RESEARCH CONDUCTED BY DMR GROUP, WHICH LED TO THE PUBLICATION OF THE BOOK "PARADIGM SHIFT: THE NEW PROMISE OF INFORMATION TECHNOLOGY" BY DON TAPSCOTT AND ART CASTON (MCGRAW-HILL, 1993.) OVER 4,500 ORGANIZATIONS WERE INVESTIGATED TO UNDERSTAND THE FUTURE OF INFORMATION TECHNOLOGY IN BUSINESS AND THE CHALLENGES OF MANAGING CHANGE.

It simply doesn't work in the newly competitive global business environment. But through what technology and by what means will this shift to a new enterprise occur?

Fifty books at your local bookstore explain how business transformation is required to succeed in the new environment. The new enterprise is dynamic and can respond quickly to changing market conditions. It has a different structure that is flatter and team oriented, one that eliminates bureaucratic hierarchy. It is based on commitment rather than control. Business processes are reengineered for productivity and quality. It is open—focused outward—and networked redefining the traditional boundaries of the company. Even the Department of Defense is taking bold steps to shift toward empowered, networked, team-based structures.

Conventional wisdom holds that information and information technology (IT) are at the heart of corporate reinvention and rebirth, but a multimillion dollar investigation conducted by the international IT services company DMR uncovered a hole in conventional thinking: Many business executives expressed the view that IT, rather than enabling business transformation, was an important obstacle.

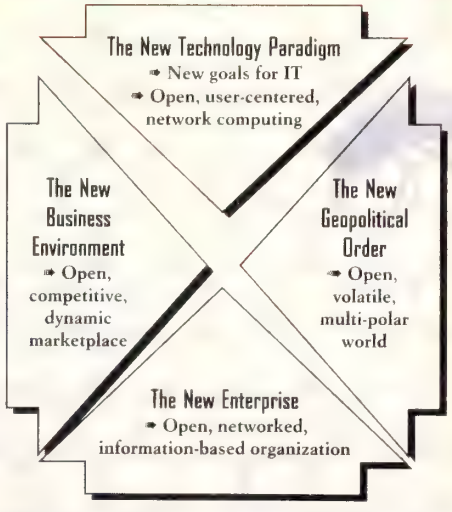
The corporation of tomorrow seems to be locked into the technology of the past.

Like the old organization, host-based islands of computing are also hierarchical, multilevel, inwardly focused, bureaucratic, limited in function, unresponsive, expensive, and hard to change. Furthermore, they correspond to the old organizational chart. Rather than enabling companies to break free and create the new enterprise, these systems are locking many enterprises into old models which are ill equipped for today's world of fast moving global markets. This problem is causing many companies to seek a new view, model or paradigm in IT.

Simultaneously, a fundamental change is taking place in the nature and application of technology in business. To date, no one has fully articulated this change. As a result, developments in technology often appear as a barrage of random, unrelated events. Most enterprises are having severe difficulty embracing the new and remain constrained by traditional approaches to exploiting technology and by legacy technology investments and cultures.

The research came to a number of striking conclusions that center around one theme. Information technology is going through its first *paradigm shift*, driven by the

HISTORIC SHIFTS



The new global situation and business environment are creating a "demand pull" for a new kind of enterprise. Combined with the "technology push" of the new paradigm in information technology, organizations are being propelled into a period of transformation.

demands of the new, competitive business environment on the one hand and by profound changes in the nature of computers on the other. The information age is evolving into a second era.

The paradigm shift is bringing about fundamental change in just about everything regarding the technology itself and its application to business. The old paradigm began in the 1950s. The late 1980s and the 1990s are a period of transition to the new paradigm. Organizations that do not make this transition will fail. They will become irrelevant or cease to exist.

The new technology paradigm parallels the new enterprise. Like the new enterprise, it is open and networked. It is modular and dynamic and based on interchangeable parts. It *technologically* empowers, distributing intelligence and decision-making to users. Yet, through standards, it is integrated, moving enterprises beyond the system islands (and their organizational equivalents) of the first era. It works the way people do, ignoring boundaries among data, text, voice and image, and provides a backbone for team-oriented business structures. It blurs walls between enterprises, enabling the recasting of ex nal relationships. Most important, it a matured to the point where it is achiev and affordable. In fact, the longer y organization waits to begin a transition, more you will have to spend, even in short term.

The research concluded that it is thro open, networked, integrated, client/se computing that the open, networked, integ ed, client/service enterprise can be achie

Understanding the technology paradi shift is becoming a precondition for bu ness success in the information age.

THE NEW PROMISE OF INFORMATION TECHNOLOGY

The old promise of information technology was limited.

For its first few decades (1950s, 1960s, and 1970s) data processing was pursued primarily to reduce clerical costs. As one insurance company executive told us, "We were after clerical heads."

Technology was used to automate existing ways of working and existing business processes—to pave the cowpath, as it were. Companies were constrained by limited technological capabilities to limited technological goals.

While the clerical payroll went down, data processing costs seemed to rise in parallel. Productivity increased measurably in the plant, but similar increases in the office seemed elusive. Technology was used by specialized personnel, such as key punch operators. Information systems managers often appeared enamored with the technology, speaking an arcane language and oblivious to business issues. And systems implementations were notoriously over budget, underwhelming, and late.

This led many business people to think the unthinkable—that investments in information technology have been a bust.

But in the 1990s, many companies have understood the shift in technology and have identified a new promise. While the difficulties and challenges are enormous, those who have successfully implemented strategies to manage the transition have achieved spectacular gains that were unimaginable just a few years ago.

The new technology paradigm is still immature and full of difficult challenges to implement. But it is so powerful, rich in function, easy to use, and cost effective that for many companies, it is enabling the transformation of organizational structure, the interactions between businesses, and the nature of work itself.

THREE CRITICAL SHIFTS IN THE APPLICATION OF INFORMATION TECHNOLOGY (IT)

The new IT enables enterprises to have a *high-performance team structure*, to function as *integrated businesses* despite high business-unit autonomy, and to reach out and develop *new relationships with external organizations* —to become an "extended enterprise."

High Performance Teams

Kmart recently adopted a SWAT-team approach to work on very difficult problems within its store systems. The company uses a *Hill Street Blues* model.

Each morning a dispatcher conducts a briefing with staff. Problems are assig to two-person "squad car" teams, con ing of a figurative driver and a rider. B accept responsibility for the problem, the driver must take some action o within four hours. For example, the dr may have a hunch about the source of problem and then "ping it" to someone who may have the answer. This ping occurs over the network, through electr ic mail. Appropriate players function team until the problem is resolved.

According to Dave Carlson, C Information Officer at Kmart, this n team approach has been extremely ef tive. But says Carlson, "The availabilit the network is the crucial enabler. Pe from different locations—including t homes—and different groupings can f tion together as a team."

Kmart's *Hill Street Blues* teams illust a shift from personal computing to worked workgroup computing, whic enabling far-reaching changes in the ex tion of business functions.

Personal computers (PCs) have pe lated throughout organizations to to every job, but their impact can rarely described as "strategic." The main limi factor is that the standalone PC does work the way that people do—in com

T'S AMAZING WHAT PEOPLE CAN ACCOMPLISH WHEN THEY WORK TOGETHER.

Competing in today's marketplace requires a tremendous investment in information and technology. Unfortunately, for many organizations, this investment has yet to pay off in a way that significantly benefits their people and organization. The reason? Fragmented, inefficient systems. ■ We understand the complexities of this situation, including the importance of bringing people and information systems together and doing it economically. Because we're an open systems integrator, we can evaluate your situation objectively and provide you with powerful, tailored solutions—while helping you retain as much of your original information technology investment as possible. ■ Like you, we measure success on return on investment and we believe accountability is crucial. We also believe in Brainware,™ that is, our experience and expertise in integrating the most intelligent, cost effective solutions into an organization. ■ Solutions that can help streamline a company. Solutions that often result in extraordinary breakthroughs in productivity. ■ Interested? Call 1-800-257-OPEN. Together, who knows what amazing things we'll accomplish.

CONTROL DATA

The Integration Company

nication with others, especially within workgroups. The new thrust appreciates the importance of the business team as the cornerstone organizational unit and the many opportunities to support teams within the execution of business functions.

Workgroup computing provides personal and workgroup tools, information, and capabilities to directly support all categories of people in the information sector of the economy. If well conceived and implemented, workgroup systems can be a focal point for the redesign of business processes and jobs. This can result in spectacular improvements in productivity and responsiveness. Rather than improving the efficiency of a task such as writing a report or preparing a budget, the goal is to improve the effectiveness and performance of the group.

Workgroup systems can enable the streamlining of a work process and changes to the nature of jobs in a business unit. The results are typically a reduction in the turnaround time for creating work products. Staff members are also able to save time, which can be reinvested in more important activities. For example, an electric utility's process to complete a customer order had a seven-week cycle time. An investigation revealed this was completely unrelated to the actual work time required to execute the process. An IT-enabled reengineering program reduced the cycle time to two hours.

Marketing personnel in one Citibank division were able to save hours a day, freeing them to spend more time in direct customer contact. This was achieved through redesign of work processes, the implementation of workgroup computing, and the building of high-performance work teams. The result was a dramatic increase in revenue and profit, and, interestingly, improved quality of work life for employees.

Such technology-enabled teams are springing up in some unlikely places, including factories, where hierarchies, labor-management differentiation, and piecework are the norm.

At Shell's Brockville, Ontario, lubricants plant, the organizational chart consists of three overlapping circles, corresponding to three self-managed teams in the plant. The plant's general manager is at the bottom of the chart and has the role of supporting the teams. Networked systems throughout the plant enable this new structure, which has been found to generate very high performance, reduce labor-management conflicts, and improve employee motivation and quality of life.

TECHNOLOGY-ENABLED TEAMS ARE SPRINGING UP IN SOME UNLIKELY PLACES, INCLUDING FACTORIES, WHERE HIERARCHIES, LABOR-MANAGEMENT DIFFERENTIATION, AND PIECEWORK ARE THE NORM.

Integrated Organizations

One of the most spectacular rises to industry dominance is Federal Express. Through pursuing and measuring quality, and a strategy of innovative and integrated systems, the company has become the dominant force in the package delivery business in North America. Some 400 airplanes, 30,000 trucks, and over 90,000 people work in synchronization to deliver over 1.5 million packages a day.

In this business, companies must strive to deliver packages right 100% of the time. If they fail once, they may never recover that customer. In 1986 Fed Ex changed its mission statement to reflect the importance of information technology in achieving quality. The statement includes the words "positive control of each package will be maintained by utilizing real-time electronic tracking and tracing systems...."

A service quality index was developed define quality, and an integrated comput architecture enabled its measureme These integrated systems placed Fed Ex the ground floor of tracking parcels in r time. Detailed information regardi minute-by-minute parcel movements a enable the proactive improvement quality—the service to the customer.

Fed Ex was able to build an integra enterprise where people work togeth across the organization with the tools deliver customer service and quality. I most companies have been unable achieve the same level of technology and corresponding organizational integration.

One government agency identified different systems where the sa information is entered into each s tem. Anyone who has filled out yet anot form at the bank indicating their addr place of employment, income, and finan status knows the problem. The ba doesn't treat you as a customer, but a collection of people using various servic Nor can it market to you as a customer selling you integrated financial services t cut across the old functional lines.

The basic problem is that enterpri today are not integrated—in part, beca of their computer systems. Companies locked into the technology of the pa highly fragmented, isolated systems t overlap in function and content, and costly to maintain. These islands develop over the years as new opportunities w identified and technologies were deem capable of exploiting those opportunities

Today, mature technology standa make it possible to plan an entire enterpr architecture rather than "add rooms to farmhouse" one at a time.

Enterprise architectures provide t backbone for the new, open, network enterprise—in fact, they are a key prereq site. They enable moving beyond the hi archy, since layers of management are required when information is instan

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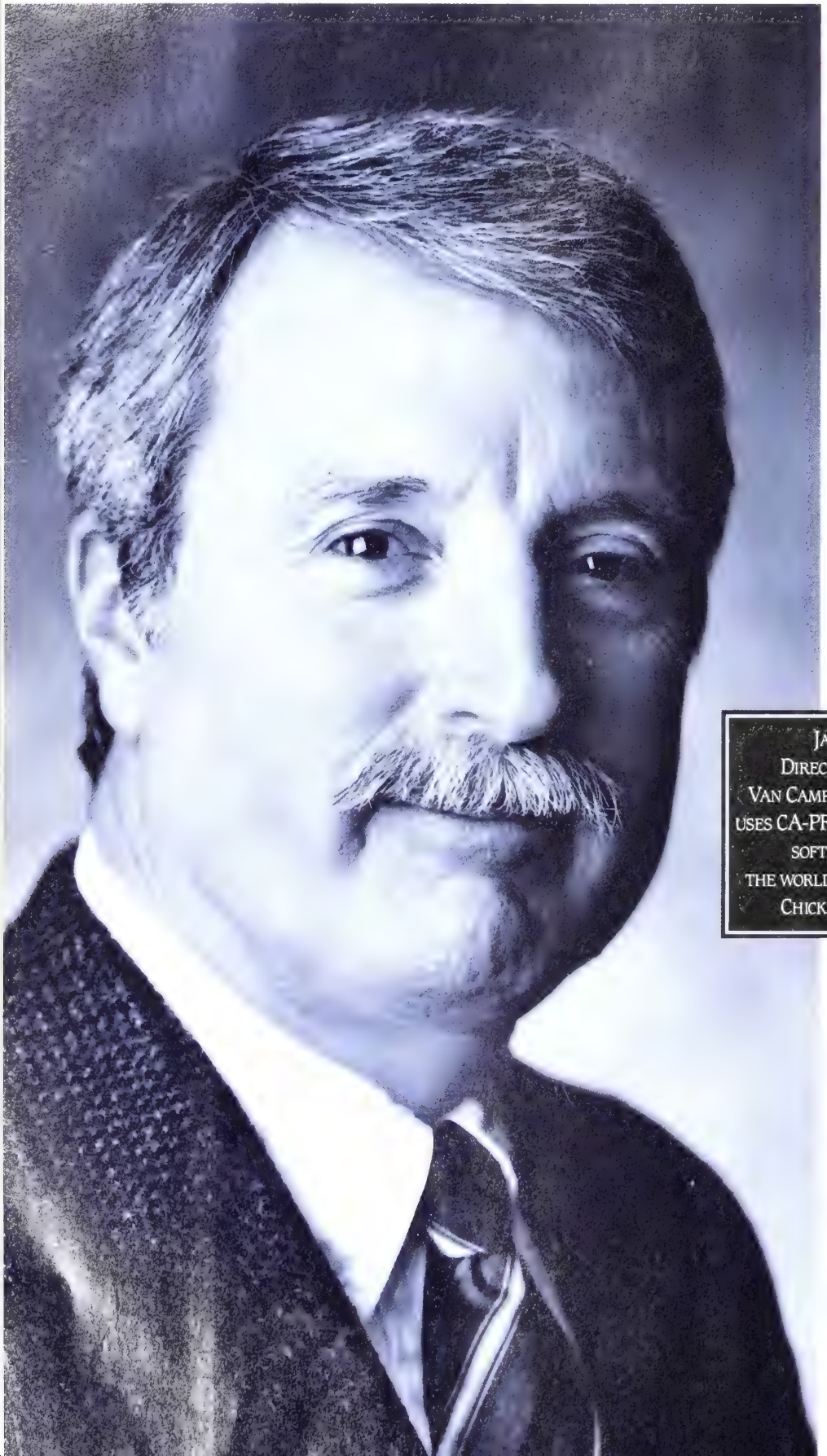

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CA90s
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JACK BOYLES, DIRECTOR OF MIS FOR VAN CAMP SEAFOOD CO., INC., USES CA-PRMS MANUFACTURING SOFTWARE TO TURN THE WORLD'S FINEST TUNA INTO CHICKEN OF THE SEA®.

And what about the fish that got away?

"Haven't lost one yet." says Boyles, smiling.

Spoken like a true fisherman.

COMPUTER ASSOCIATES
Software superior by design.

lable electronically. Such architectures enable the enterprise to function better cohesive organization, providing cor-te-wide information for decision-mak- and new competitive enterprise ications that transcend autonomous ness units.

t the same time, such architectures provide a platform for entrepreneurial innovation in the use of computers by ness teams—while maintaining an rprise capability. Business units can be ed as networked clients and servers, ting in a modular, flexible organization-ructure that is very different from the epipes" of the old hierarchy.

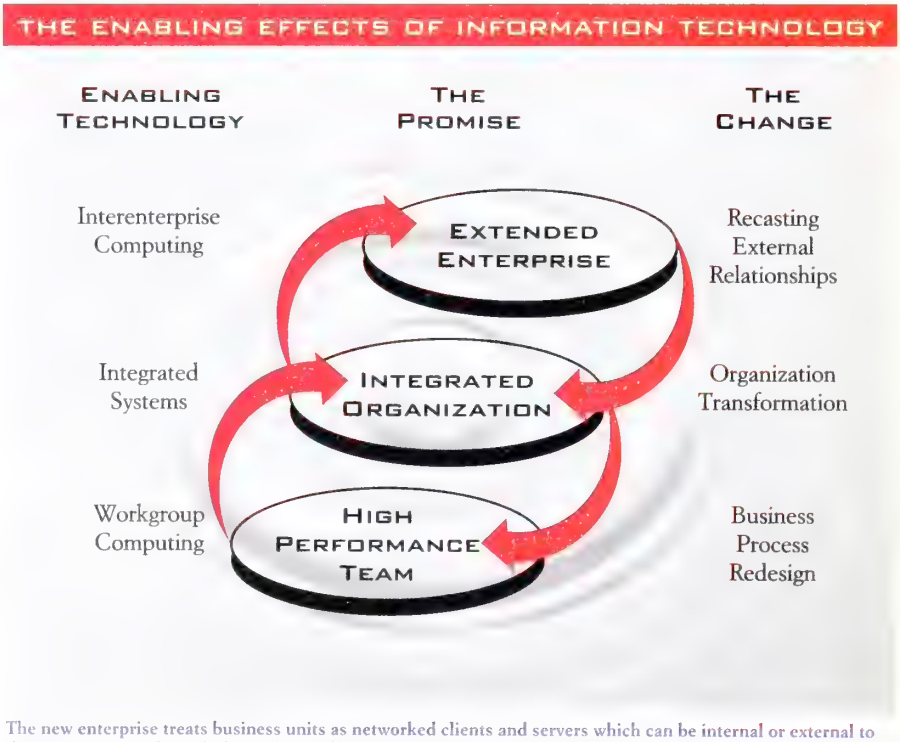
or example, several large banks, in-ing Chemical Bank and the Canadian erial Bank of Commerce, have adopted rchitectural principle stating that all omers will be treated as a customer of ank, not just of the individual services use. Such a principle is viewed as a equisite for becoming a relationship , and implementing these principles ally leads to huge changes in the orga-tion's structure and basic functioning ell as its technology infrastructure.

s a transitional step to integrated com-ng, many companies are building links veen various systems to enable an rprise capability. Phillips Petroleum Frito-Lay have implemented manage-t support systems to provide informa- from a variety of disparate systems for utive decision-making.

nded Enterprises

McKesson, the San Francisco–based distributor of prescription drugs and health and beauty aids, provides hospi-als and pharmacies with electronic ordering tools that comprise hand-held devices and software running on the customers' PCs. The system helps the customers run their businesses, get instant turnaround on product orders, and carry little inventory—not to men-tion gives McKesson a competitive edge in the marketplace.

- The 17 largest hotel chains have joined together to create THISCO (The Hotel Industry Switch Company), which provides the hotels with a reservation switching capability and network. Fierce competitors benefit through a technology-enabled collaboration.
- A business executive renting a Hertz car at an airport enters his destination into a terminal and receives a printout of directions and a map. When he returns the car, a parking lot attendant records the license on a hand-held computer that is radio-linked to a database and prints the receipt on a miniature printer belted to her waist. The customer has checked in the car and is on his way, receipt in hand, in less than a minute.
- A California driver renews his license from a kiosk in a shopping mall avoiding the lines at the government office. A Sheraton hotel guest reviews and corrects her account, then checks out using a special software program she accesses from the television screen in her room. A subscriber in Toronto calls a voice-response customer support line at the Toronto Star because his paper is late. In less than 30 seconds, he has corrected the problem; the system automatically messages the local delivery depot, and a paper arrives 12 minutes later.
- Toys 'R' Us became the world's largest children's specialty chain, in part through using EDI (Electronic Data Interchange) to make information transactions with suppliers digitally rather than on paper. Annually, the company processes over half a million invoices electronically, dramatically reducing costs and improving the integrity and management of related information. Some of its most important suppliers even have direct access to point-of-sale information to determine sales trends and generate purchase orders on behalf of Toys 'R' Us. Everybody wins.



The new enterprise treats business units as networked clients and servers which can be internal or external to the organization. Through the enabling effect of the new technology paradigm companies are creating, modular team based structures which cascade into inter-organizational networks.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NEC

These scenarios are part of another important change. It is not only the walls *within* organizations that are breaking down through standards and integrated systems, but walls *between* organizations are blurring as well. Through interorganizational computing, new extended enterprises are being born.

Just as an enterprise can be viewed as a technology-enabled network of individuals, groups, and structures acting as clients and servers, so technology is enabling new client/server networks of enterprises.

In the first era, systems were viewed as internal components of the organization, reflecting the walls between companies. Computer systems are now extending outward to link enterprises with suppliers, distribution channels, and consumers. Computing is becoming interenterprise computing.

The DMR research found such systems can strengthen customer loyalty, lock out competitors, speed up the distribution of goods and customer service, and save money—among other things.

Technology is becoming a vehicle for forging links between business partners—both suppliers and consumers of products and services. Early systems such as the American Airlines SABRE reservation system and the American Hospital Supply customer order system have become legends in how to use technology to link with customers to defeat the competition. But they were only the tip of the iceberg.

The new technology of *extended reach* enables the recasting of relationships with external organizations. Computer systems between enterprises are beginning to talk to each other. The manual value chain from suppliers to consumers is becoming an *electronic value network* that also links to affinity groups (such as business partners) and even competitors.

The emerging technologies include interenterprise databases, voice-response systems, electronic messaging, and new point-of-sale technologies. Standards such as EDI— the computer-to-computer exchange of business documents between companies— is transforming the ways companies work together.

When large auto manufacturers require their suppliers to communicate with them using EDI, one of the objectives is to make suppliers more productive, profitable, and, therefore, stable. Auto manufacturers acquire an interest in the profitability of their suppliers and can contribute through EDI. New extended enterprises are being born.

Once Fed Ex had implemented its integrated computing platform to track parcels and manage quality delivery, the next step was to provide external customers with a similar capability. According to Cynthia Spangler, Vice President of Corporate Headquarters Systems at Fed Ex, "The strategy is to bring to internal and external customers more useful information to make timely decisions. We're in the business of saving customers time and, hopefully, money by making them more efficient."

> TECHNOLOGY IS BECOMING A VEHICLE FOR FORGING LINKS BETWEEN BUSINESS PARTNERS—BOTH SUPPLIERS AND CONSUMERS OF PRODUCTS AND SERVICES.

Fed Ex customers can receive PC software that enables them to track parcels themselves. Another service called Powership provides larger customers with a computer, printer, and software to automate shipping—including printing the mailing labels, dispatching and tracking packages, calculating costs, and automatically billing the customer's customers for packages sent on their behalf. Even smaller customers can come on-line. FedExtras is a similar service for small shippers who send 1 to 10 packages per day. And the next step in reaching out the the customer through IT? A new Fed Ex program called On-line is prototyping kiosks in public areas such as airports where anyone who wants to send a package can interact with the system to address a deposit their packages.

"We feel that customer service is a ma factor that differentiates us. With each st closer to the customer, we can improve s vice. And the new technology is the bac bone to achieve this," says Spangler. F Ex's customers are becoming part of extended enterprise.

Ditto for Kmart's suppliers. CIO Carls describes "a slick application with heavy graphical user interface th allows 50 to 100 vend to look at a merchand ing database." The syste gives Black and Deck access to any data (exce information about the competitors) they belie will better serve Kma For example, B&D's o computer systems can t it how a certain coffee p is selling in Kmart sto in San Diego county.

Kmart implement the program in exchan for more frequent a smaller deliveries, but also because it was the best interests of the company, its cu tomers, and its suppliers. Carlson says it very much in Kmart's interests for Bla and Decker to spot a trend earlier becau it will help them better fulfill Kmart's nee Black and Decker wins because it has channel to customers who want to buy products. Customers win because there w be stock of products they want to purchas

"We're taking an interest in helping bo our suppliers and ourselves better serve o customers. Absolutely we're concern about our suppliers' well being. We wa them to serve their customers through us well as possible. That's pretty much like sa ing like we're operating in their interests."

Kmart is becoming an extended ente prise through information technology.

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THE STORAGE ARCHITECTS

FIVE CRITICAL TECHNOLOGY SHIFTS

Strategy discussions at John Hancock a few years ago often tended to come to a similar conclusion. Huge changes would be required in their approach to information systems if they were to achieve future goals for customer service and competitiveness. Like many other organizations, they concluded that the host-based islands of technology in the company would become unable to deliver the goods for corporate renewal.

According to Diane Smigel, the senior IS executive, "To create a customer-centric, empowered, flatter, and more responsive organization, we needed a more empowered, distributed, and responsive computing architecture."

Hancock adopted the new approach of open, client/server computing with far-reaching implications and results.

Similarly, for many other companies a number of shifts in the nature of technology itself are creating the power, capabilities, and price-performance for a new way of computing and a new organization.

SHIFT 1: FROM TRADITIONAL SEMICONDUCTORS TO MICROPROCESSOR-BASED SYSTEMS.

The microprocessor—a computer on a chip—is at the center of the new paradigm. Traditional semiconductor technology, which fills the massive cabinets of the mainframes and minicomputers in corporate data centers, is going the way of the dinosaur. Microprocessors are beginning to dominate leading-edge computers of every size.

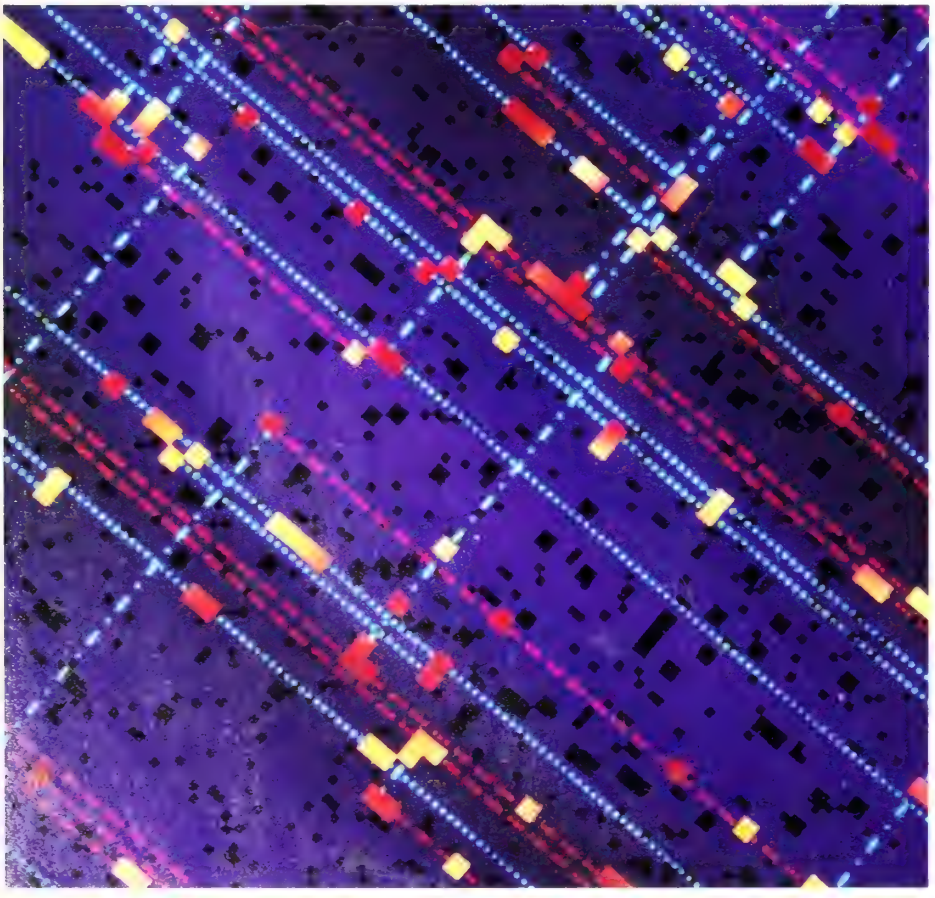
A unit of performance costs hundreds of dollars on a microprocessor-based system, compared to tens of thousands of d- lars on traditional mainframe systems. A today, systems that combine many mic- processors into a single, large computer c dramatically outperform mainframes sheer power.

The microprocessor is the precondit for the new way of computing, which, l organizational empowerment, moves inte gence out into the enterprise where t action is—at the point of sale, custom service, R&D lab, or marketing depa- ment. It enables organizations to ha empowered architectures that exploit t superior price/performance of microproc- sor technology.

Some pundits have compared cars a microprocessors, saying that if auton- biles developed like microprocess technology, the fastest car today would tra at 10,000 miles per hour and cost 2 dollar

The analogy has problems. The c would be two inches long and would bl up occasionally, killing all the passenge Worse, what applications would we use t car for? Who would drive the car? H would we train people to use it? Wh implications would the car have for t architecture of transportation, for polic in areas from policing to insurance?

The microprocessor is changing eve thing we know about computing, the app cations that are possible, compu architecture, and technology policy—not mention the IT industry itself. Most imp tant, the microprocessor enables empo ered, distributed computing architectu to support the empowered, network organization.



SHIFT 2: FROM HOST-BASED TO CLIENT/SERVER SYSTEMS

The Federal Express Powership appli tion, which enables customers to electro cally prepare and track packag themselves, is based on something call *client/server computing*. Cynthia Spangl Vice President of Corporate Headquart

stems at Fed Ex, explains, "As a client/ ver application, Powership allows us to t as close to the customer as soon as pos- le. Client/server gives us flexibility and eed that couldn't be achieved on the inframe."

The first era was one of master/slave nputing. Mainframes or minicomputers d slave terminals attached to them—typi- ly, dumb terminals with cryptic alphanu- ric user interfaces. The enterprise also came populated with islands of personal nputers, some attached to local area net- rks that enabled the simple sharing of s and devices like printers.

Now, because of the spectacular power of the microprocessor and the maturi- ty of networking technology and stan- ds, a fundamentally different style of nputing is emerging. It goes by differ- names—network computing, coopera- e processing, client/server architectures but regardless of the name, the new proach provides the potential for users access a wide range of information, plications, and computing resources hout worrying about where they are or v they are connected.

Most important, software is processed only on a host, but wherever it makes st sense. Software is not limited to one chine, but can be processed "coopera- ly" on various computers across the net- k. The computer becomes the network, the network becomes the computer.

To use a human analogy, thoughts are cessed throughout an office,—not just in mind of the boss. And thoughts are mmunicated as required to meet require- nts of the collective process.

Many companies have mistakenly con- ded that the main reason to adopt nt/server computing is to reduce IT enditures. But companies often see just tip of the iceberg—opportunities for savings on hardware. A frequently used n is *downsizing*, which refers to shifting plications from mainframes to smaller, roprocessor-based systems with a typical objective of hardware cost savings.

While price/performance gains of 10,000% in hardware over traditional mainframes are compelling, it is important to look at the entire cost of ownership of a system—not just the hardware purchase price. Client/server demands new skills and complex software, and it represents a big change for most MIS departments to tackle.

When all is said and done, client/server computing can reduce IT costs significantly. But that isn't the best reason to do it. Rather, the new paradigm in computing, of which client/server is central, is the missing piece in the discussion of how to achieve the new effective, competitive, and productive enterprise. The new approach is required to integrate information from across the organization. Client/server computing, like organizational empowerment, moves intelligence out into the enterprise. It enables powerful new multimedia applications that integrate data, text, voice, image, and video and require massive desktop horsepower.

The new approach enables organizations to have "empowered architectures" that exploit the power of microprocessor technology.

The research shows that the responsive networked enterprise can only be achieved through the new modular, powerful, networked style of computing.

SHIFT 3: FROM VENDOR-PROPRIETARY SOFTWARE TO OPEN SOFTWARE STANDARDS.

The Fed Ex success story is also based on open systems. Spangler says, "Open systems give us the greatest flexibility. Neither we nor our customers know what our future needs will be. With open systems, we have the freedom to respond to unanticipated needs."

FIVE CRITICAL TECHNOLOGY SHIFTS

	ERA 1	ERA 2
Processing	Traditional Semiconductor	Microprocessor
System	Host-based	Client/Server
Software	Vendor-proprietary	Open
Information	Separate data, text, voice, image	Multimedia
Software Development	Craft	Engineered, manufactured

Five fundemental shifts in the nature of technology enable the open, networked, client (or customer) service organization. The first era began in the late 1950s. The late 1980s and 1990s are a period of transition to the second era. But getting "from here to there" is turning out to be a challenge.

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Executive Vice President and CEO
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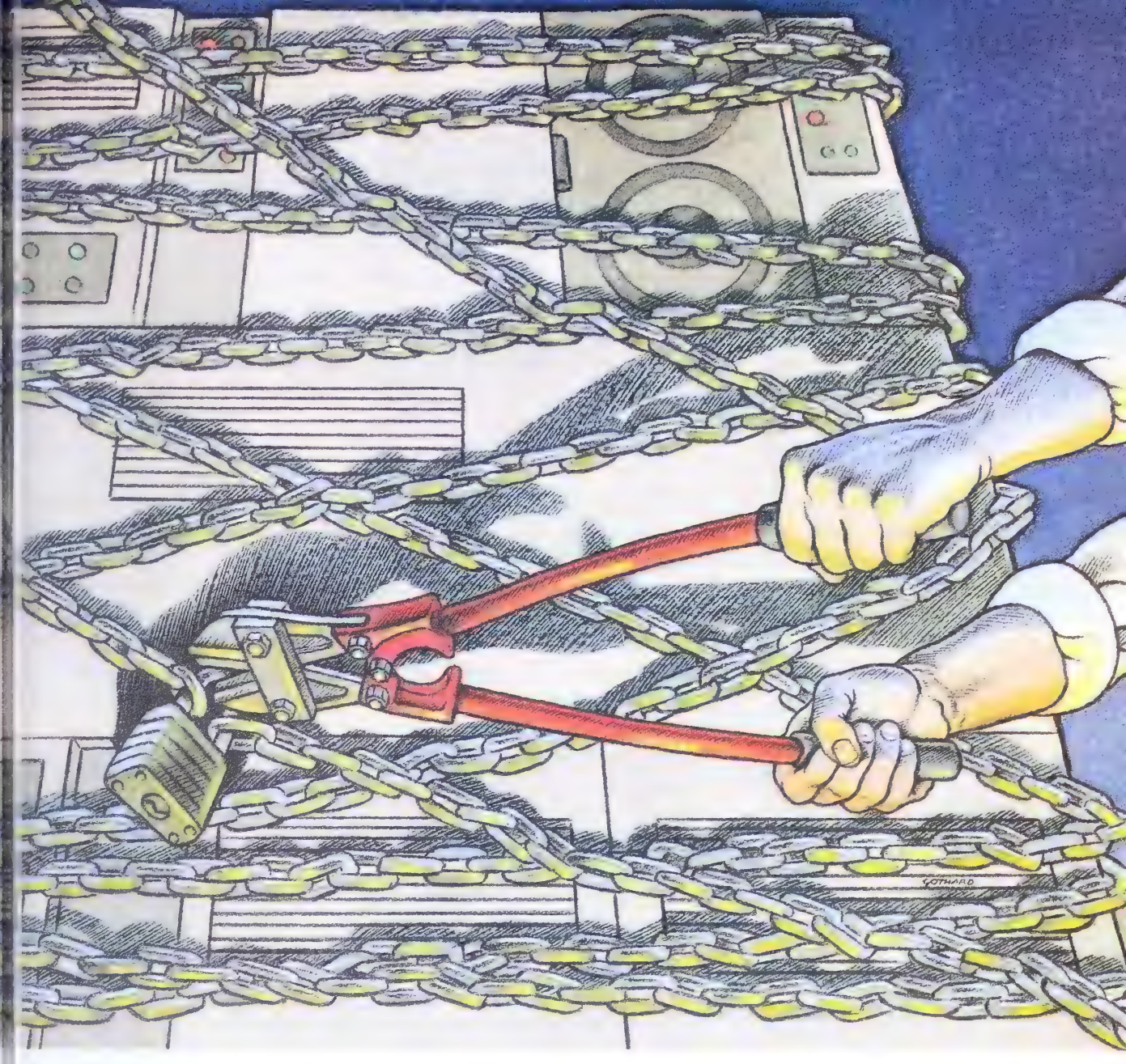

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Like the construction industry of 17th century Boston, the railroad industry of the 19th century, and the electric bulb and automobile industries of the 20th century, the computer industry has matured to the point where it is consolidating around standards.

Open systems, based on industry standards not controlled by any one vendor, are transforming the computer industry and presenting a monumental challenge to commercial organizations alike. Standards are arising in all areas of computing, including communications, databases, user interfaces, computer operating systems, and software development tools. Today, every major computer vendor has adopted open systems as its main approach to technology.

Open systems result in information and software being portable—that is, they can run on any hardware platform regardless of size or brand. More important, standards also enable systems of different sizes and brands to "interoperate" or communicate with each other.

Openness is not black or white. Standards and products have various degrees of openness, based on criteria such as vendor neutrality, platform availability, compliance with formal standards, and market penetration.

It is true that there are many competing standards—an oxymoron, indeed. But leading companies have concluded adequate clarity exists to embrace the concept. By the end of 1993, over half of U.S. sites with more than 50 people will have adopted open systems as a policy.

DMR's research showed that open systems have far-reaching advantages over the traditional approach. They are significantly less expensive due to their exploitation of microprocessors, lower vendor margins du to customer freedom, and use of shrinl wrapped, as opposed to home-grown, sof ware—to name a few.

More important, the leading organiz tions concluded that industry standarc were necessary to be effective in the ne competitive business environmen Standards are required to link customers suppliers', and competitors' systems. An standards are required to achieve integr tion of information. Standards in gener and open systems in particular do not sir ply provide benefits. They are becomin imperative to create the kind of modula flexible, powerful, networked computin architecture required by the new busine environment.

Standards are also transforming th computer industry. George Shaffner X/Open, a consortium devoted to definin

HIGH PERFORMANCE TEAMS AND CLIENT/SERVER COMPUTING IN SYSTEMS DEVELOPMENT AT UNITED AIRLINES

Wayne Anderson, Director of San Francisco Management Information Services for United Airlines comments, "We realized that to develop our new engineering and maintenance system, we needed to take the same approach as Saturn and Team Taurus, and bring all the right people together around a common methodology, a common understanding of all the things that have to be done to be successful, and a common technology to enable teamwork.

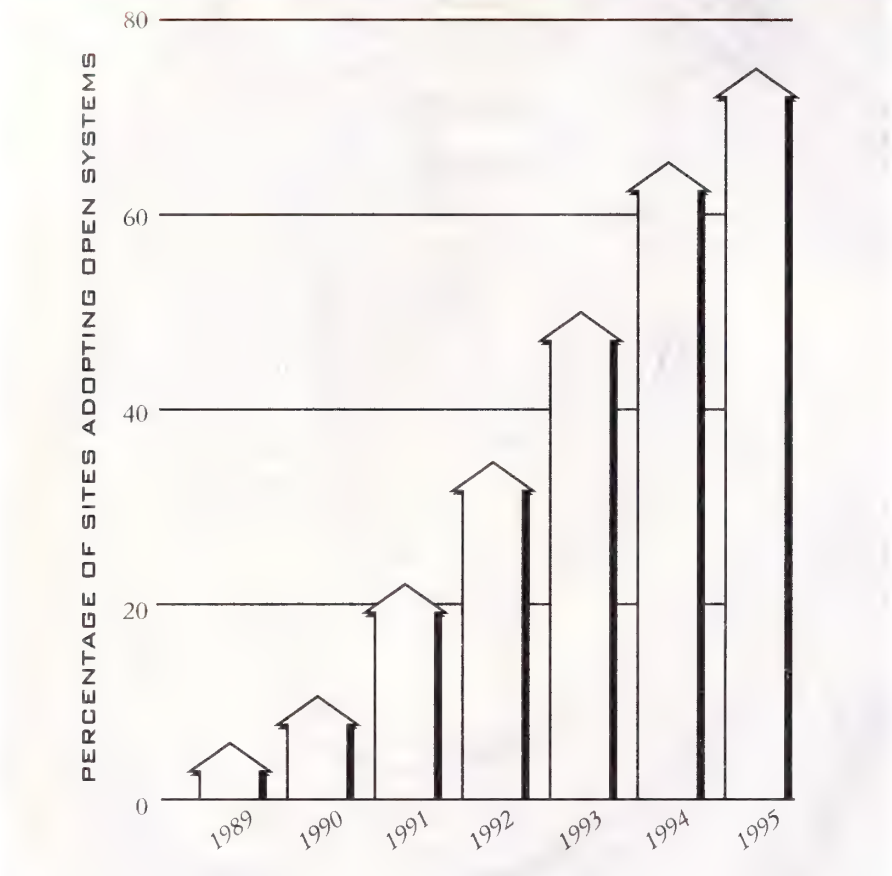
"We've ripped away the old organizational references. For example, there is a person from the engines area who is a part of the team. His job is to develop some specific piece of the system.

"However, old organizational lines quickly blur. It becomes hard to remember who is a systems person and who is a user person. We have found incredible increases in productivity. In the old way, lines delineated the old departments and functions and, by default, delineated the tasks people were assigned. Under the new way, the best person gets assigned to the task that fits their skills. Their tasks may cross traditional organizational lines.

"Two things enable us to work as a team. One is the adoption of an appropriate software development methodology, which focuses on deliverables rather than tasks. It is irrelevant who does the tasks in this environment.

"Second, we use a workgroup development system on an open, client/server platform to build this way of working. We can not only communicate electronically, but we can pass around pieces of products that get added to. It's sort of like jointly creating a book."

GROWTH IN ADOPTION OF OPEN SYSTEMS



The percentage of sites in the United States and Canada adopting open systems (as defined by the site) has been growing dramatically since 1989 (random, stratified sample of 3,500 sites.) By the end of 1993 over half of all sites will be basing their technology purchases and implementations on open standards.

and promoting standards, describes open systems as "the systematic elimination of low-value differentiation" in the IT marketplace. Open systems prevent the reinvention of wheels, as software suppliers include standard components and interfaces in their products. A new division of labor is occurring in the industry as various companies compete—ironically through cooperating in areas of mutual self-interest. All this benefits the customer.

SHIFT 4: FROM SEPARATE DATA, TEXT, VOICE, AND IMAGE TO MULTIMEDIA.

In the first era, the immaturity of technology and the absence of open standards meant that these four forms of information were separate and that separate technologies were needed to manage them.

Data processing systems handled numerical data. Word processing systems and telex handled text. Telephone and dictation systems handled voice data. Photocopiers and microform systems handled image data. As the information contained in these systems becomes digitized, and as standards grow, the opportunity to integrate them is unfolding.

Today, two professionals in different parts of the globe can nearly instantaneously exchange computerized, or digital, documents that contain all four forms of information. A document on a workstation screen may have text surrounding a digitized photograph or video clip and "live" spreadsheet with the sender's voi requesting clarification from the recipie attached to certain parts of the docume This compound document can be fil electronically, retrieved, altered, and co municated as appropriate without ev being transformed into a paper document

Again, the research showed that t benefits can be striking. Multimedia co puting is natural computing. These syste work the way people do, by integrati these forms of information into busine processes and daily life.

SHIFT 5: SOFTWARE DEVELOPMENT —FROM CRAFT TO FACTOR

Why does software development take long, cost so much, and produce resul that are frequently inflexible and unsatisf ing? There is a simple answer.

Like the pre-industrial creation rifles, software development in the fir era was a craft. The quality and cost of sof ware was a function of the skills and cr ativity of the professionals who develope it. Typically, programs from within th same organization—even those runnir on the same computer and developed b individuals on the same team—were different in style, utility, and cost as th weapons of early America. When a gu broke, a craftsman had to fix it since the were no standard parts.

Software is going through a fundament transformation that is as significant the move to the industrial design an production of rifles. It is becoming an eng neered profession using factory-of-the-futu production techniques. This is an importa issue, given the huge investment in softwa made by any medium or large organization.

Because computers are now the basi delivery systems for products and service companies need new computer applica tions in days or weeks—not months o years. Some financial products in the bank ing industry have a competitive life span o

w weeks. Leading enterprises have con-
led that the traditional model of cus-
software development on traditional
puting platforms is too expensive and
slow.

evelopers use and reuse modules or parts that are standardized and work together. The new approach is called *ct-oriented computing*, in which pro-
mmers create chunks of software
ed objects instead of large, complex,
tly intertwined software programs.
jects are developed in standard ways
have standard behaviors and interfaces. These Lego-like pieces enable the rapid *assembly* of software rather than its laborious *crafting*.

After much ballyhoo and delay, computer-aided software engineering (CASE) tools are finally beginning to show their potential to radically improve the way software is created—not unlike the automated industrial production line. The software industry is becoming a parts industry, and through standards, software vendors create standard parts that enable customers to rapidly assemble computing environments.

JOHN HANCOCK CLIENT/SERVER COMPUTING FOR THE CLIENT/SERVICE ORGANIZATION

John Hancock, the Boston-based life insurance company, has implemented about 30 client/server systems over the last four to five years. Planning is underway to integrate these systems into an institutional architecture for client/server.

One of the most far-reaching of these systems is a billing and accounting system in the employee benefits business group. The system has enabled the company to completely reengineer this business.

According to Diane Smigel, Vice President of the Corporate Information Services Group, "We moved all of the thought process regarding obtaining a new case or customer out to the field offices where all the knowledge base and real client contact resides."

The new business process is supported by a sophisticated client/server system. Once the new business is booked, the information at the front end becomes part of the institutional database, but until the work is finalized, it stays out in the field.

Smigel describes the relationship between the new business and the new technology, "There is the same paradigm shift occurring in the technology and in the organization. They are in lockstep with each other. The new technologies are enabling flatter, customer-centric, organizations where workers are empowered with the tools and knowledge they need to delight customers in every customer interaction—not just to meet their expectations—and to enable people to handle entire work processes rather than just being a step along the way, or a hand-off in a serial process. The whole game is improving the delivery of service to customers—better, cheaper, faster."

INFORMATION TECHNOLOGY AND THE NEW ECONOMY

Information technology is not just reinventing the enterprise. The new paradigm of information technology holds the promise of wealth creation, high value, high-paying jobs, and the transformation of business, our economy, government, and society for the better.

The industrialized world is not just in a slow recovery, and this is not just the business cycle as usual. Our economies are undergoing a fundamental restructuring, and a new, knowledge- and innovation-based economy is emerging.

Industrial production and agriculture will continue to be important as humans will continue to need food, clothing, housing, and transportation.

But just as agriculture was transformed by the industrial age, both agriculture and industry are being transformed by the information age. Industrial production now has robotics, computer-aided manufacturing, mass production of customized goods, and the like. And farmers have PCs on their tractors. When your cow is sick, you log on to a network to do an interactive diagnosis. While you're there, you might check the commodity market prices....

Just as the highway system and electrical power grid provided the infrastructure for the industrial economy, information networks will be the highways for the new economy. Without a state-of-the-art, electronic infrastructure within organizations and throughout the country, no society will be able to succeed.

Computing, telecommunications, and the industries that provide information—broadcasting, publishing, libraries, the entertainment industry—are converging. It will not be long, for example, when the telephone, television set, and home computer are basically the same device. The information superhighways could deliver a vast array of services, in data, text, voice,

CONTINUED ON PAGE 88

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NEW TECHNOLOGY, NEW ENTERPRISE: CORRESPONDING THEMES

TECHNOLOGY THEME	ORGANIZATIONAL THEME
Open Systems. There is *portability* of software and information across hardware platforms and *interoperability* of technology extending out to the external value network of suppliers, consumers, affinity groups and competitors. The shift is away from proprietary systems in which each computing platform acted in a unique, self-interested manner.	**Openness.** The enterprise is a network of business functions th interoperate. The organization is also viewed as the extended organ zation or interorganization. Walls between enterprises blur and org nizations become more in touch with their customers and partners. I the open organization, people act not only out of their own propr etary self-interest, but out of a shared vision and commitment. Th workforce is also portable—achieved both through outsourcing an through the undertaking of varied assignments (in which, for exam ple, everyone spends some time in customer contact).
Interconnection. There is a shift from era I islands of technology to enterprise networks that enable communication and sharing of information and technology resources. This is achieved through enterprise architectures and standards.	**Integration.** The new technology now enables the integration modular, independent organizational components—an integrate network of businesses. The concepts of seamlessness and tran parency are as applicable to organizations as they are to computin architectures.
Distributed Computing. There is a shift from host-based hierarchical networks where all the intelligence was in the "host" (typically a mainframe or minicomputer) to network computing where computer intelligence is distributed close to the user. Host-based systems worked well with centralized command and control organizations.	**Empowerment.** Individual employees and work groups are empow ered to act and to create value. *Intelligence*—the thinking, planning human processing of information, application of knowledge to bus ness problems, decision-making, action—is distributed. Lackin empowerment, many of the real or potential capabilities of individu als in the era I enterprise were not used.
Real Time. The technology is applied to capture information on-line and update information banks in real time, giving an accurate picture or enabling the management of a production process second by second. There is instantaneous processing of inputs into outputs as in the control systems in a jet aircraft.	**Immediacy.** Information immediacy enables the *real-time enterpris* one that continuously and immediately adjusts to changing busine conditions. As Davis and Davidson describe in *2020 Vision*, goods ar received from suppliers and products shipped to customers just i time, reducing or eliminating warehousing and allowing enterprises t shift from mass production to custom on-line production. Custome orders arrive electronically and are instantly processed. Correspondin invoices are sent electronically and databases are updated.
Cooperative Processing. Software applications are processed on client and server devices, as appropriate, effectively using microprocessor technology. The processing capability that exists throughout or beyond an organization is exploited. The end user has no idea where various pieces of software are processed, but such cooperative processing across the network provides access to the information, functionality, and system resources required.	**Cooperation.** According to Canadian futurist Joe Arbuckle, the ne organization is a *cooperative infrastructure*. Individuals and groups ac as clients and servers, cooperating not out of moral principles, but ou of mutual self-interest. The notion of cooperation is extended beyon labor-management relations to become the *modus operandi* of th business. Reward systems are designed to achieve desired behavio Interdependencies across the enterprise are defined and built into th new infrastructure.
Peer-to-Peer Network Protocols. Network rules shift from centrally controlled hierarchies to protocols that treat various devices on the network as peers. Peers communicate with other peers under carefully defined rules. For example, on some networks an information token circulates on the network, ensuring that any device that is committed to follow the rules can use the token to send information to another destination.	**Commitment.** The new enterprise is based on commitment rath than control. It focuses on accomplishment rather than accountabilit Organizational clients and servers are motivated through interperson al and intergroup commitment rather than the authoritarian com mand and control structures of the traditional hierarchy. As with th technology, centralized command mechanisms are replaced with ne horizontal and diagonal communications patterns and protocol allowing for cooperative functioning.

TECHNOLOGY THEME	ORGANIZATIONAL THEME
hitectural Modularity. Rather than being a giant monolith, com-ng architectures consist of standardized, independent parts that be grouped together as required to meet business requirements. se can include standard computing platforms, operating soft-e, or interchangeable application software components. The goal create a dynamic, flexible computing environment.	**Organizational Independence**. The organizational counterpart to the technology module is the business team. Networking enables the seemingly contradictory achievement of integration yet independence of organizational components, businesses, or modules. Modules or *clusters* are grouped together as required to achieve business objectives.
form Specialization. Computing hardware in a second-era archi-ure is specialized—meeting the customized requirements of the vidual, workgroup or other organizational unit. Unique comput-capabilities, not only in the area of processing, but input devices h as scanners), display technologies (such as touch-sensitive ens), and output technologies (such as color laser printers) are ied as appropriate to meet specialized requirements.	**Skill Specialization/Competency Building**. The new enterprise focuses on the knowledge worker—more and more a professional, not a manager. Knowledge, by definition, requires specialization. Rather than discouraging or killing the development of professional competency by promoting professionals to become managers, the new enterprise has professional career paths and programs. As with technology that is specialized to meet unique requirements, specialized competencies are encouraged and developed in individuals and teams. Individual contributors are rewarded based on competency and accomplishment rather than span of control.
r Friendliness. Systems are designed to be easy to learn and This is achieved through graphical user interfaces, application istency and simplicity, effective training programs and the inte-on of data, text, voice, and image into multimedia systems.	**Accessibly**. Some writers have described a principle of the new organization as user-friendliness. The Organization Man of the 1950s, who identified with the corporation and stuck with it for life, is dead. He has become the independent, multicareer professional of the 1990s. The networked enterprise must seek to be an accessible, learning organization, uniting members around a shared vision. This is not a command-and-control vision imposed on the organization, but, as Peter Senge writes in the *Fifth Discipline*, a vision to which people are truly committed "because it reflects their own personal vision."
bal Networking. The corporate network becomes the backbone ie enterprise and the key delivery system for supporting business rations. It is based on standards and enables both real-time com-nications and store-and-forward communications. This is ired when people are not able to reach each other directly. It enables access to the collective information resource, as appro-e, from any location. The network is transparent—users do not to know the location or structural details of information they ss. It is available to them as required.	**Time and Space Independence**. The new enterprise redefines time and space for its employees and stakeholders. In the open, networked enterprise, any individual or team can communicate and, as appropriate, share information with any other individual or team. Work can be performed from a variety of locations, including employees' homes. The office becomes a system rather than a place. The network becomes a repository for the time-independent communications of people who access the communications of others when they are able. Networks of business teams cooperate globally to achieve business objectives.

Abridged from Paradigm Shift: The New Promise of Information Technology, *by Don Tapscott and Art Caston, McGraw Hill, New York, 1993.*

CONTINUED FROM PAGE 83

REENGINEERING FOR TEAMS, ORGANIZATIONAL INTEGRATION AND THE EXTENDED ENTERPRISE AT PAUL REVERE

The Paul Revere Life Insurance Company is a niche insurer specializing in disability income insurance for the high-end individual market. The company is market-share leader in individual disability insurance.

For the last year and a half the company has been examining and reengineering the process whereby it acquires new business. One goal of this program is to reduce direct costs by 50%.

Information Systems Vice President Gary MacConnell says that a related goal is to improve customer service—specifically to decrease the time to secure a new policy from a client's initial application to the issuing of a policy. This currently takes five to seven weeks. "Like many business processes, policy acquisition has grown topsy turvey, and the process has had various activities tacked onto it in an unplanned manner" he says.

The target is to reduce the process to one to two weeks. This will be done through workgroup computing to support the teams in the underwriting department. Although underwriters are working with paper files today, the company is shifting to image technology to reduce paper. Each underwriter will have a workstation that integrates data from various sources.

The whole department will have to become better integrated through an integrated computing architecture. According to MacConnell, "At the same time we are reengineering the business processes, we are retooling the systems infrastructure. Data processing systems are disjointed islands, and data is often entered redundantly multiple times."

The new architecture will be integrated and based on client/server computing and the distribution of databases. MacConnell says the objective is the "empowerment of employees—giving them everything they need to do their jobs, to be followed by giving them additional authority."

The initial focus of the reengineering effort is on the home office rather than field offices. The company will then push these systems out to the field offices and to customers. Client signatures will even be captured electronically.

The program will change the company dramatically. Says MacConnell, "We are reducing lower-level jobs and upgrading them to include more authority and a broader perspective on the function. Today, we have people performing individual functions like an assembly line, but for the most part, they don't have a perspective on the broader process. In the new process, people will have an interest, view, and accountability for the total process, with the goal of reducing the size of the workforce, speeding up the process dramatically, and closing business.

"Dramatic change is hard for people to get their head around. We are so ingrained in current processes. We are disturbing the status quo and asking the sales department, disability organization, and mail department, for example, to change. We are crossing the vertical lines of the old organization with these new horizontal processes such as acquisition. We need a new structure that can manage these horizontal processes. People will be losing some of the control they had in the past. People need to cooperate in new ways.

"My own feeling is that we are just scratching the surface today. If we go ahead ten years and look back, we will likely observe that we fundamentally changed the way we do business through the new technology."

image, and video to every home, school, factory, laboratory, and office in the country to be used by active and informed users.

The old limited technologies of data processing, telephone and television are giving way to powerful new networked tools that can transform not only the the corporation but government and society.

There are new opportunities to improve the quality of health care while lowering costs; to cut use of automobiles and deadly emissions from the internal combustion engine through telecommuting; to transform education through computer-assisted instruction and interactive educational networks; to reach out to isolated communities and drive local economic development; to improve participatory democracy and to build a new, open, networked society that empowers native people, communities, and regions.

The new information technology is beginning to transform the way we do business, work, play, and even think.

The new paradigm is rich with opportunity, but also fraught with peril if we fail t embrace and control it effectively.

Will we fall behind other countries i exploiting these new opportunitie Will the new technology increas gaps between haves and have-nots, kno and know-nots, between north and soutl between men and women, between skille and unskilled, between knowledge worke and production workers? It is true tha overall the shift will be central to the gene ation of wealth and prosperity, but wha

happen to those who due to knowledge skill gaps—or sheer redundancy—are ɔcated in the process?

Ve are at a crossroads in our journey to new economy and society. We have a ce. We can continue to do business as l, and in so doing, fall behind. Or we , in partnership, set out on a new se. Such a course involves a change in king and the courage to act—to seize lay. The stakes are very high.

fundamental change in the relationships between institutions is required. A new political economy that requires creation of a new social contract is rging.

very institution within our society will to change.

Many businesses are falling behind in ıse of the new technology. Business executives, blinded by cynicism about he poor payback from the the old echnologies, are unable to see the ɔpportunities promised by the new. Furthermore, our progress toward creıting new IT-enabled clusters is slow ompared with other countries.

Many governments seem slow to comɔrehend the shift. The failure of Congress to pass a bill allocating $4 nillion to upgrade computers and teleɔhones in the White House seems ndicative of the problem. How can government be a credible leader and ɔartner if it is not a credible user?

What role will unions play in the new economy? It is in the interests of workng people and their organizations to embrace the shift. A low-wage strategy vill not bring national competitiveness nd success in the new economy. But ve can attract investment and generate ıew wealth and high-paying jobs hrough a value-added workforce—one hat is highly educated, motivated, disiplined, and empowered. Will the ınions step up to a fuller role in the ociety or, in restricting ambitions to ombatting employers for the short term, become marginalized?

- The news media have an uneven appreciation of the challenge as well, reflected in simplistic stories of computers killing jobs. Can journalists become full participants in achieving national awareness of the transformation we are entering?
- Will teachers be willing and able to reinvent education, as the innovative staff and management of River Oaks school in Oakville, Ontario, have done? Today's schools equip students with the methods and skills of the old economy. And workers laid off from the old economy foundry don't have the skills (the equivalent of a college degree) to work at the microprocessor fabrication plant. How can we achieve learning for the new technology and use the new technology for learning?


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RETOOLING AND THE THREE "Rs" OF TRANSFORMATION

The shift is propelling every organization into a period of far-reaching change. We refer to this as the "three Rs."

Organizations need to *reengineer* themselves—exploiting the enabling effect of the new paradigm. A second challenge is *retooling* the information technology environment in each organization. A legacy of era I systems is a huge impediment to moving forward. A third is to *realign* the IS organization with the business organization. The computer department rose to meet the needs of the first era and is becoming inappropriate to address the needs of the second.

RETOOLING

One of the biggest challenges is to develop strategies for migrating to the new technology. As Max Hopper, chairman of the SABRE Technology Group at American Airlines, says, "We are in the process of making the shift to era II. Conceptually, we are there. If you understand conceptually that the new paradigm is the goal, the big issue is how to get there."

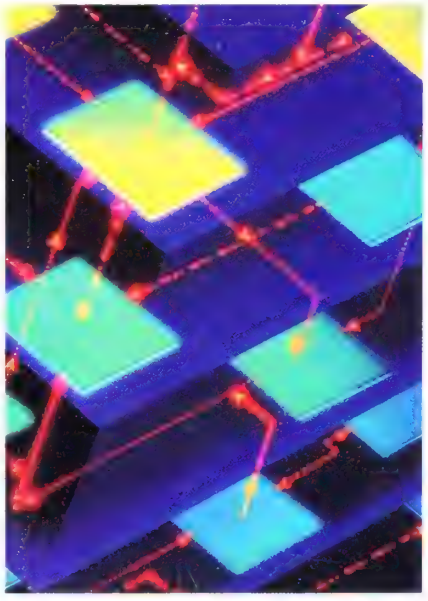
The thorniest problem is the legacy of era I systems. To paraphrase X/Open's George Shaffner, the irresistible force of the new paradigm is meeting the immovable object of a $2 trillion installed base of legacy systems.

Many of these legacy systems are old enough to vote and drink. But rather than being code museums as some pundits have said, they are operational systems. The code may be ancient, but you currently run your business on these systems. Worse, the longer an enterprise waits in defining a *target* information technology architecture that embraces the new paradigm, the more it perpetuates its legacy with every investment.

Max Hopper explains that American Airlines spends around $50 million dollars per year maintaining and enhancing its host-oriented SABRE reservations system. SABRE has 100,000 terminals, multiple mainframe hosts, and consumes the efforts of 1,000 programmers developing applications in the extremely low-level language called Assembler. Moreover, it is based on an old-style 6-bit network that, for example, can handle only uppercase letters. According to Terry Jones, American's vice president of applications development, "It's about as far from open, client/server systems as you can get."

How can an enterprise create the conditions whereby new investments contribute to a desired future, rather than perpetuating the past? For American and many other companies, the key is architecture. However, a fundamentally new view of architecture is emerging.

In the past, an architecture was really the *design* of a system, created to meet specific application needs. But in the new business environment, organizations have little idea what their application needs will be in two—not to mention five or ten—



years. Consequently, we need architectures that can enable the exploitation of unforeseen opportunities and meet unpredictable needs.

Past architectures were also often product architectures. They were owned by an IT vendor. A decade ago, a company might have described its architecture as "IBM System 370." Today, Dave Carlson of Kmart describes his architecture as the "Kmart architecture" based on industry standards rather than vendor products. "I tell vendors, 'Don't tell me how good your products are, tell me how you comply with my architecture.' I don't buy products, I invest in architecture."

The new architecture is not restricted to one system or department, but comprises an enterprise architecture that may reach out to external organizations.

This new approach to architecture is required to embrace the new technology paradigm and to deliver required information and software applications that cross and help melt organizational boundaries. It is needed to enable continual evolution of information technology over time and to encompass new business requirements and new innovations in technology that may come from unpredictable vendor sources.

Legacy systems can exist by treating the proprietary hosts as data servers on the network until the applications can be redesigned to take full advantage of client-server. A middle tier of servers between the client and legacy data can be constructed to pull information from legacy systems as required. Such a three-tiered approach avoids a disruptive and costly initial total conversion to second-era technology.

Once you know where you are going, a second, closely related requirement is to know how to get there. But as Walter De Backer, former Director of Informatics for the Commission of European Communities, says, "No two organizations will have the same migration path."

As with travel, knowing the ultimate destination is a beginning. Knowing the route is just as essential. Each enterprise needs to undertake a process to define its retooling target and route to the new paradigm. Such a process must be driven by business people, not technologists. In a bank, only business people can adopt architectur-

RESTRUCTURING OF THE INFORMATION TECHNOLOGY INDUSTRY

The situation is further complicated because the information technology industry is going through its first fundamental restructuring.

Much hardware and some software is becoming a commodity, and vendor account control is forever dead as customers have greater freedom and power. That doesn't mean customers are seeking some new form of vendor promiscuity; the research shows that most see the price of diversity and want solid partnerships.

As a result, a consolidation of the industry is occurring as proprietary product architectures fall by the way. Revenue and profit in the industry is shifting to software and services, which will outpace hardware in North American revenues by the end of 1993. Through standards, de facto and otherwise, the software industry is becoming a parts industry as standard interfaces enable various parts to plug-and-play in a customer environment.

Myriad new distribution channels are coming to the fore as systems integrators, value added resellers (VARs), AffinityVARs, SuperVARs, and the like are able to get close to customers.

And the future of technology is being shaped cooperatively as consortia of various kinds define standards and actually create critical technologies that are shared by all members and the industry as a whole. Examples include the Open Software Foundation, a not-for-profit software product company involving dozens of major vendors along with smaller vendors and user enterprises; X/Open, a consortium of leading vendors and users, which is defining, promoting and verifying compliance with standards; and the Object Management Group, which involves vendors and users in developing and promoting standards for object computing.

Most of this is good news for customers who benefit from greater freedom, power, and the new division of responsibilities within the industry based on standards.

ciples such as "customers will be treated customer of the bank as a whole."

Moreover, experience has shown that process of architecture is first and fore- it a process of organizational change. e daunting than the technology legacy ie cultural legacy left over from the first Old paradigms—old structures, rela- ships, and ways of doing business—die d. Through a process of architecture, iness managers can, however, come ther and understand their own com- self-interests. The research and expe- ce is clear on this. The challenge of anizational change far outweighs the nological difficulties of migration. nge is also facilitated by quick imple- itations of systems and standards along way. Quick-hit successes bring credibil- nd momentum to the process.

When it comes to actual implementa- , the immaturity of the new technolo- is a problem.

ohn Hancock's Diane Smigel describes how they had to revolutionize the operational support processes for systems to implement client/server computing, "Problem resolution, capacity planning, security, disaster recovery, and other operational support services that have been around for decades in the mainframe world had to be reinvented. The problem here is that we don't yet have tools to do these things in the new environment." But Smigel concludes, "While these are important issues, they shouldn't scare you away from client/server."

The new enterprise is a learning enterprise constantly changing its business, technology, and relationships to adapt to changing business conditions.

A striking example is the Fed Ex case cited earlier. The company uses 12 measurements of quality service (from a customer's perspective) that are tracked by the system, reported on a daily basis, and distributed to the company as a whole on a weekly basis. A vice president is assigned to each category and is responsible for initiating actions to eliminate those causes. As Fed Ex's Cynthia Spangler says, "When the category has been eliminated, we move on to new categories. As soon as we achieve success, we redefine success." Similarly, Fed Ex's IT architecture is being retooled to embrace the new developments in open, client/server computing.

For Kmart's Carlson, the paradigm shift is bringing with it exciting times. "The technology people are understanding the need to align themselves with the business. And the business people are understanding the extraordinary opportunities to transform the business by fully utilizing the new technology. I don't think there has even been a more exciting time to be involved in business and technology."

This special supplement was written by Don Tapscott who, along with Art Caston, co-authored the book Paradigm Shift, the New Promise of Information Technology.

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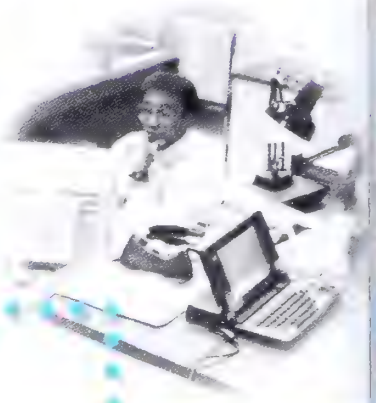

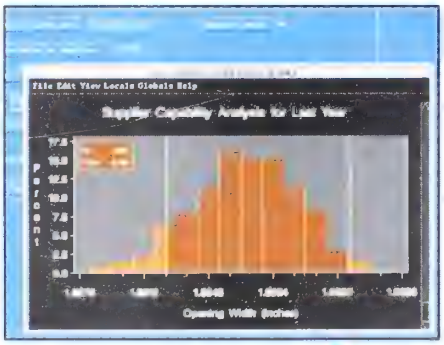

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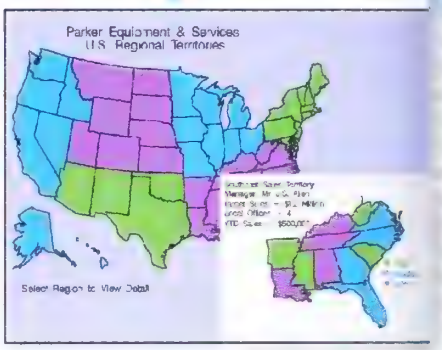

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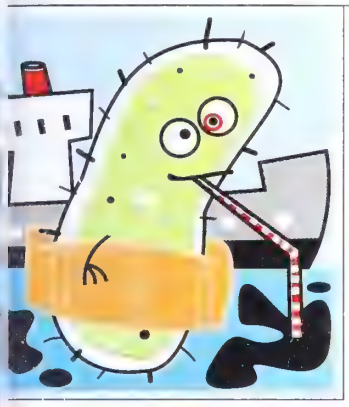

Around the pool, inflatable arm bands that keep youngsters upright can be a lifesaver. Now, researchers at the University of Massachusetts at Amherst have come up with water wings for useful "bugs," such as oil-eating bacteria. Using gene-splicing techniques, the researchers isolated 13 genes responsible for producing air-filled sacs in a float- bacterium called *Halobacterium halobium*. The sacs help o the sun-loving bacteria close to the ocean surface.

ast year, Shiladitya Dassarma, a professor of molecular ge- cs, transferred the water-wing genes to a nonfloating var- of halobacterium. Presto: It sprouted the sacs. In August, sarma got a three-year grant from the National Science ndation to transplant the genes into oil-eaters that clean up n spills—and thus let them keep munching after others e sunk. Next may come reengineered yeast for beer-mak- Dassarma says the yeast would float to the top of the vat e skimmed off—so the beer wouldn't have to be filtered.

FTWARE THAT HELPS ULTRASOUND INT A CLEARER PICTURE

Women in Saskatoon, Sask., are getting a better chance at conception with the help of computer-visualization ware. Ultrasound images of a woman's ovaries are hard to l because they present a grainy, two-dimensional image of egg-producing follicles. Roger A. Pierson, director of the oductive-biology research unit at the University of Sas- hewan, converts those two-dimensional images into easy- nderstand three-dimensional ones with the help of software n Houston-based Visual Numerics Inc. The lights and s that represent peaks and valleys are converted into a hical image resembling a mountain range.

nowing the condition of a woman's follicles allows Pierson etermine how much medicine is needed to stimulate them oduce eggs. A doctor who doesn't know the follicles' lition might underdose to avoid accidentally overstimulat- healthy follicles, resulting in dangerous enlargement of the ies. Now, Pierson is experimenting with using the visual- on software to examine ovarian cysts and tumors to tell ther they are malignant.

W THE TALKING 'TV TEDDY' NES IN

on't be alarmed one of these days if the teddy bear sitting next to you on the couch starts talking back to the tele- n. It's probably a TV Teddy from inventor Don Kings- ugh, who also came up with the popular Teddy Ruxpin and Lazer Tag game of the 1980s. TV Teddy says whatev- he TV tells him to say. A radio inside him picks up signals n specially encoded videotapes that are broadcast by an at- tachment to the VCR. Eventually, broadcast-TV programs may beam the signals. TV Teddy can get a child more involved with a show by commenting on the on-screen action, by singing along with the TV characters, or by asking questions.

The technological trick behind TV Teddy is to squeeze the messages into a narrow strip on the left edge of the screen. That part is hidden by the cabinet of the set. Kingsborough says the signals that make the teddy talk could allow interaction with home-electronics gear and computers as well. For now, his company, Yes! Entertainment Corp. in Pleasanton, Calif., has its hands full with TV Teddy. It has orders for more than 1 million of them, at an estimated price of $69 to $89, but will have only 500,000 to ship by Christmas.

THIS CARDIO-VEST COULD GIVE MORE HEARTS A SECOND CHANCE

More than 300,000 Americans die each year of cardiac arrest. According to doctors at Johns Hopkins Medical Institutions in Baltimore, restarting the heart by pressing rhythmically on the chest—known as cardiopulmonary resuscitation—is successful only about 15% of the time. So a team at Johns Hopkins has been working since 1981 on a vest that surrounds the torso like a giant blood-pressure cuff. Doctors there estimate that it can restart the heart at least twice as often as manual CPR, with less injury to patients' ribs, lungs, and livers. The latest version covers a larger portion of the chest than earlier ones and doesn't completely release the pressure between squeezes.

Hopkins is seeking Food & Drug Administration approval to test the vest on 400 patients at several medical centers. A company called CardioLogic Systems Inc., which is part-owned by the Hopkins inventors, plans to manufacture and sell the vests once they receive an FDA O.K. Hopkins' involvement is no surprise: Modern methods of manual CPR were pioneered at the medical center in the late 1950s.

LASERS TO THE RESCUE OF STIFF, PAINFUL WRISTS

Will lasers become an office worker's best friend? Lasermedics Inc. in Stafford, Tex., hopes so. It wants to zap carpal-tunnel syndrome, the painful condition caused by repetitive hand motions, with laser light. The syndrome can plague anyone who works at a keyboard or on an assembly line. Overworked tendons of the wrist swell, pinching the nerves into the palm. The usual treatments are anti-inflammatory drugs, hand splints, or surgery. Lasermedics says its approach is cheap, painless, and may speed healing.

The doctor or therapist holds a flashlight-like laser against the wrist for 33 seconds at three points every other day for five weeks. According to Lasermedics, the low-power light activates pain-numbing endorphins, opens up blood vessels, and lets tendons glide freely. A recent study of 160 General Motors Corp. workers yielded promising results, a preliminary analysis found. Pending FDA approval, Lasermedics hopes to begin selling the devices next year, at up to $8,000 each.

ILLUSTRATIONS BY CHRIS WASS

REGULATION

GETTING THE LEAD OUT AT THE FDA

Kessler promised to reshape the agency. How's he doing?

The event was a study in how much a hidebound federal agency can change. A clinical trial published in September, 1992, proved that Vasotec, a Merck & Co. drug that treats severe heart problems, also helps victims of milder heart ailments. To be approved for the new use, the drug normally would have endured a lengthy review at the Food & Drug Administration. But this time, the FDA moved swiftly. Before Merck could file an application, FDA reviewers got test data from the National Institutes of Health, started the regulatory process, and in six months were ready to grant approval. "We've never done that before," says Dr. Robert J. Temple, a top official at the FDA's Center for Drug Evaluation & Research.

BACKLOG. That's becoming a refrain at the FDA. For years, the agency whose proudest accomplishment was keeping thalidomide off the U.S. market in the 1960s seemed to nurture inaction. But in 1990, Dr. David A. Kessler became commissioner on the heels of a scandal involving fraudulent applications for generic drugs. Kessler promised a transformation, and in short order restored the agency's credibility by cracking down on everything from falsely labeled "fresh" orange juice to potentially dangerous breast implants. Next, he has borrowed what he calls "the best practices of the private sector" to tackle the vastly harder job of making the agency a more efficient regulator. If his strategy pays off, thousands of companies will get their devices and drugs to market sooner, giving such products more moneymaking years before their lucrative patents expire. Success could also make the FDA a model for Vice-President Al Gore's plan to streamline the federal bureaucracy.

FDA officials warn against expecting too much too soon. "In companies, this kind of change takes at least six years—and in government it may take longer," says former Booz, Allen & Hamilton Inc. consultant Mary Jo Veverka, now the FDA's deputy commissioner for management and systems. Some agency-watchers, fed up with continuing delays in approval of medical devices and other products, are downright downbeat. "It's all smoke and mirrors," scoffs one influential food-and-drug attorney. "The FDA is more poorly managed today than at any time in the past 30 years."

The evidence, however, suggests otherwise. Giving the FDA's 21 field offices more authority and cutting down on headquarters reviews has sped up enforcement: The agency now cranks out requests for injunctions, such as a recent one against Warner-Lambert Co. alleging shoddy manufacturing, in fewer than [illegible] days instead of 100. Biotech drug [illegible] viewers are whittling away at appli[illegible] tions that have lingered for up to f[illegible] years. Regulations, such as the mass[illegible] 1992 rewrite of food-labeling rules, [illegible] being issued on time instead of ye[illegible] late. And after winning congressio[illegible] approval to bill companies $100,000 [illegible] each drug evaluation, Kessler raised [illegible] budget 8.7% this year, to $826 milli[illegible] and began hiring enough extra revie[illegible] ers to cut average drug approval ti[illegible] from 22 months to 12 by 1997. "T[illegible] changes have been excellent first step[illegible] says Kenneth P. Berkowitz, a vice-pr[illegible] ident at drugmaker Hoffmann-La Ro[illegible] Inc. "Kessler has planted the seeds fo[illegible] more effective FDA."

It's hard to make such gains witho[illegible] pain, of course. Some highly regard[illegible] senior officials have left or been ford[illegible] out. And many career staffers res[illegible] the implication that they were bumbli[illegible] managers before Kessler arrived. "[illegible] least we've managed to train David [illegible] say that he wants to make the pl[illegible] even better, instead of implying we w[illegible] a bunch of jerks," comments one top [illegible] ficial. Still, even the most entrench[illegible] bureaucrats agree that the FDA's str[illegible] ture badly needed fixing.

The problems started at the top. "T[illegible] first day I got here, I was called to t[illegible] Health & Human Services Dept. [t[illegible] FDA's parent]," says Kessler. "For [illegible] whole day, nothing else got done." [illegible] he installed five deputies to oversee p[illegible] icy, manage crises, deal with Congr[illegible] and the outside world, handle day-[illegible] day operations, and revamp the agenc[illegible]

REINVENTING THE FDA

KESSLER'S ACTIONS

- Added new layer of deputy commissio[illegible] to help run the agency when the commiss[illegible] is occupied with crises or other business.
- Reorganized the FDA's centers for bio[illegible] and foods around products, not scientific disciplines, to focus on product approval
- Now has similar divisions, such as onc[illegible] within different FDA centers work togeth[illegible] instead of autonomously.
- To speed enforcement actions and dru[illegible] reviews, has given field offices and lowe[illegible] managers more authority.
- Pushed through a plan to collect millio[illegible] fees to pay for 620 new reviewers and sp[illegible] drug approvals.
- Has goaded companies into submitting better drug applications by refusing to ac[illegible] substandard ones.

iquated communications systems. 're than just extra bodies, the new n represented a leap in management ertise. "In the past, management nt doing the budget, allocating office 're, and doling out parking spots" in- d of actually running things, says sler. "The agency never asked how k should get done."

SYNCRATIC. As a result, the FDA was ely shaped by historical accident. h of its five mostly autonomous prod- review centers evolved its own idio- ratic ways of doing business. The ter for Food Safety & Applied Nutri- , for example, was once the Bureau cience, and its primary mission was eloping scientific tools to help inspec- spot contaminated food. That mis- was history when Kessler took , but the center was still organized nd scientific disciplines—which had e connection with newer roles such egulating food additives. "I tried my nedest during my tenure as [center ctor] to work out a program of re- ch that was mission-oriented—and n't successful," says Richard J. Ronk, director of the product policy staff.

ASSESSMENT

. The FDA works faster on many things ut some staffers feel isolated from the oner.

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A hopes to halve average approval 997.

ls have jumped from rare to nearly pplications.

essler's solution was to reorganize center along "product" lines, such eafood and food labels. The changes wrenching, in part because Health uman Services sat on the plan for ths after its February, 1991, an- ncement. But the overhauled Food ty center passed its first big test—ementing the 1990 Nutritional Label- & Education Act on time. It did so use all the food-labeling expertise previously was scattered throughout FDA had been put in a new division in the center. "We would never have en food labeling done had it not

been for the reorganization," says center director Fred R. Shank.

The FDA's new emphasis on moving the freight has also overturned long-standing practices in the field. In the past, says New York District Director Edward T. Warner, the FDA's six regional offices tried to cover the waterfront on the theory that every industry the FDA oversees needs close attention. "One of the things we've learned from Dr. Kessler is focus and planning," says Warner. "Rather than trying to take on 60 industries simultaneously and overextending ourselves, we are drawing priorities." In Warner's district, that has meant fewer checks of food warehouses and cosmetic companies and tighter scrutiny of generic drugmakers and the smoked-fish industry, where contamination can mean food poisoning. Coupled with more authority and faster action at headquarters, this "means I'm able to make better use of my resources," says Warner.

At the same time, the FDA is fixing countless little things. Consider communications. "Information is the agency's lifeblood, but they've been ages behind in computer and communications technology," says Dr. Cheryl F. Graham, former director of the Drug Marketing, Advertising & Communications Div. Veverka counted it a triumph when staffers figured out how to address one another over what she calls the agency's "Tower of Babel"—six different E-mail systems. Then there's the matter of the forms companies must fill out to report adverse reactions to drugs or other products. Each center had its own form and requirements. Kessler has made them all the same. "It sounds so simple," he says. "But anyone who has been in the federal government knows these are the real challenges."

> Even the most entrenched bureaucrats acknowledge that the FDA's structure badly needed fixing

Plenty more lie ahead. One big difference between a company and the FDA, for instance, is that agency officials manage exclusively by head count, not the dollar size of their payroll. In other words, Congress gives them a certain number of staff, not just a budget. As a result, expensive scientists may get hired when cheaper technicians could do. Veverka has a plan to manage by payroll, which might require some top-level retraining. "The agency's not ready for it yet," she says. "We basically have scientific managers who don't even know their own payroll costs."

Such constraints mean that FDA management still is a long way from rivaling the private sector's best. What's more, some execs in regulated companies don't like some of the changes so far. Some former FDA officials among these say that giving field offices more authority, for example, has made enforcement more arbitrary. And so far, the revamping of the Center for Devices, tarnished by heart-valve and breast-implant controversies, has resulted mainly in slower approvals of products. But overall, most observers agree, Kessler's FDA has demonstrated that, even in government, necessity can be the mother of reinvention. Says Carl B. Feldbaum, president of the Biotechnology Industry Organization: "Kessler has brought the FDA into the 20th century."

By John Carey in Washington

capability:executive programs

SURVIVING THE PEACE

Illustration by Nickolai Punin A cover of BusinessWeek, January 13, 1992 Issue

The 1993 Business Week Defense Conversion Roundtable

Surviving the Peace: The Conversion and Realignment of the Defense Industry

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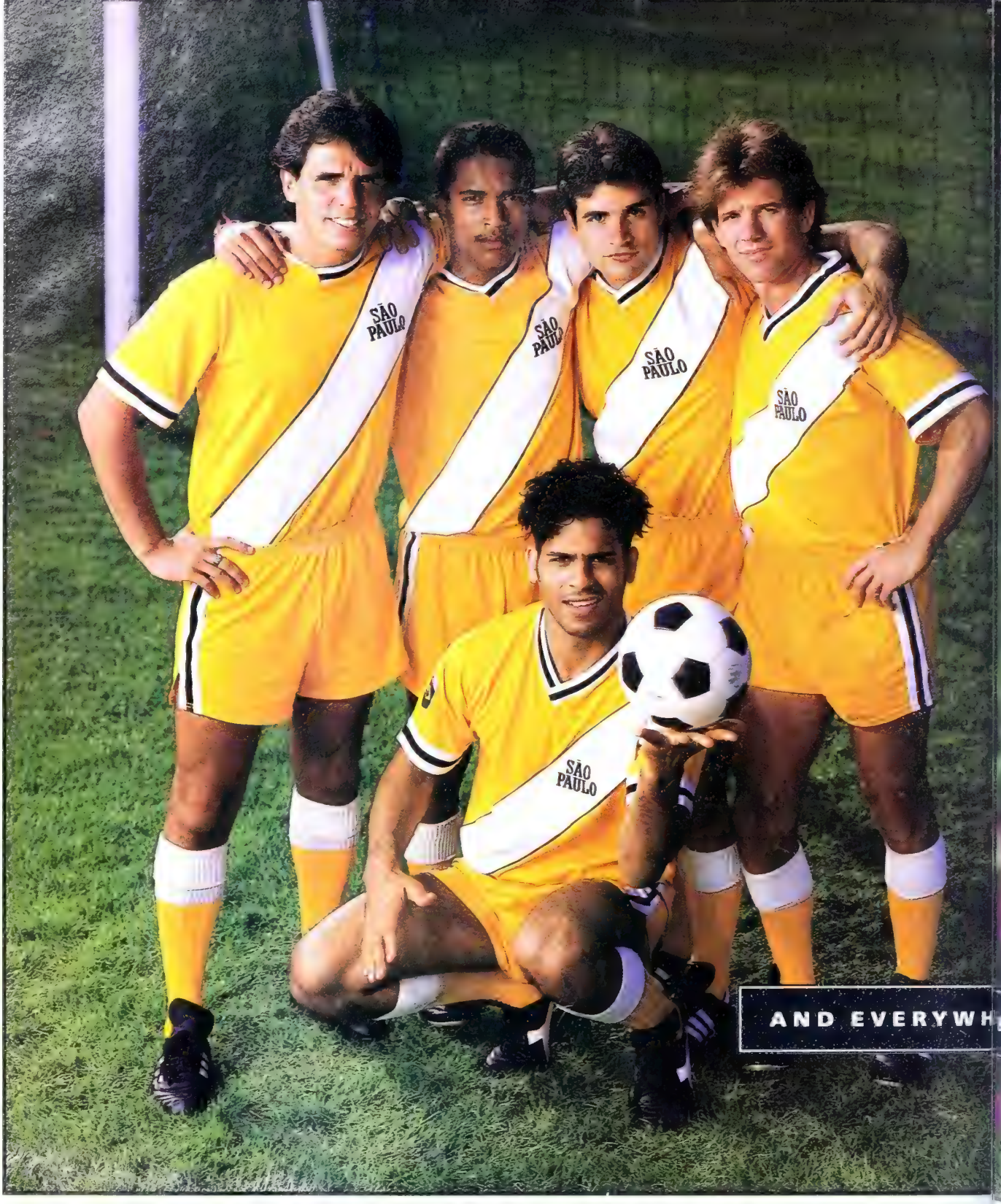

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CORPORATE AMERICA'

Many companies are demanding that executive education achieve specific, real-world goals

With its proposed takeover of Tele-Communications Inc., Bell Atlantic Corp. has demonstrated that it's bent on breaking the phone-company mold. And as it pulls into the fast lane on the information superhighway, the Baby Bell's middle managers can ill afford the complacency that is a legacy of their days as part of the American Telephone & Telegraph Co. monopoly.

To break tradition and embrace a new culture of change, the company's executives have gathered in a classroom at the University of Pennsylvania's Wharton School. They're debating the wisdom of challenging the boss. "I can disagree all the way up to the president," claims one manager. Retorts another: "Once." Laughter fills the room.

Like Bell Atlantic, many companies these days are using executive education to meet specific strategic goals or transform corporate culture. Ford Motor Co. managers are being instructed in how to become more customer-responsive. Glaxo Inc. is using education to teach executives new leadership skills. General Electric Co. is sending managers to school to learn how to develop markets in fast-growing economies such as those of Indonesia and Malaysia. "Executive education is increasingly being used as a management tool to accomplish business objectives," says Robert E. Mittelstaedt Jr., vice-dean at the Wharton School.

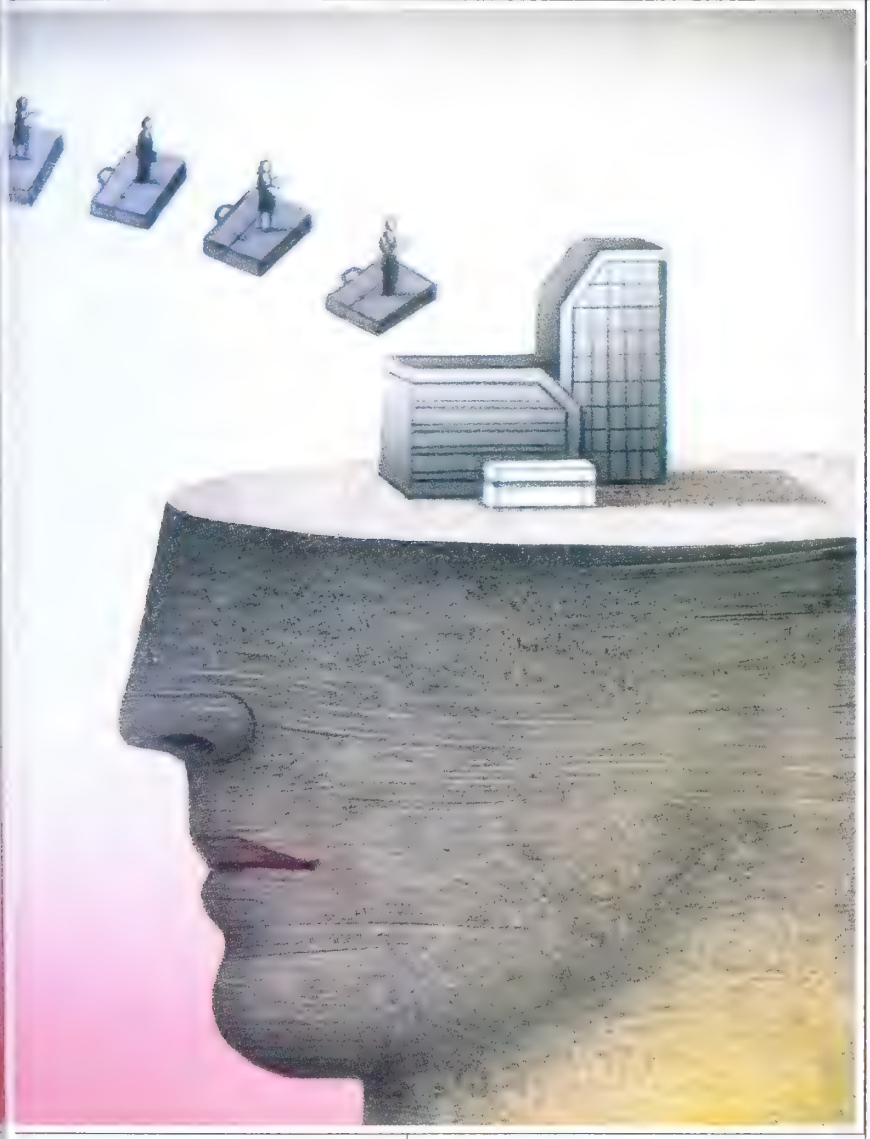
LINKAGE. The trend is forcing companies, B-schools, and consulting firms to alter their approaches. Organizational transformation is replacing a focus on personal development. "Companies definitely have in mind some things they'd like to change, and in many cases it's a change in culture," says Thomas Keller, dean of Duke University's Fuqua School.

Seeking to link education with specific, real-world goals, companies are sending fewer managers to off-the-shelf programs—a change that may be causing many B-schools to lose participants. Corporate customers, which spend nearly $15 billion a year on formal training programs for managers and professionals, are demanding that learning lead to immediate changes on the job. Some companies are sticking with business schools for custom programs, such as the one for Bell Atlantic at Wharton. The school now draws half its executive-education revenues from such custom programs. Others are designing their own in-house courses, often cherry-picking some of the best professors and consultants to teach them (page 105).

Still others are launching full-fledged internal schools, smaller versions of GE's famous Management Development Institute in Crotonville, N.Y., or Motorola University. "More companies are launching their own corporate universities, not as a building or campus but as a learning process," says Jeanne C. Meister, a consultant who recently studied educational efforts at 30 corporations, including American Express and Intel.

The goal: to use education and training to shake up bureaucracies and give meaning to today's managerial buz

EW LESSON PLAN



ls and missions. Consider Bell Atlan- The company has sent about 150 agers to Wharton since late 1992, the objective of making them more intable and more aggressive.

ace there, they discuss "managing ambiguous authority" and study the ving telecommunications network. they challenge one another. "If you ed here for five years and you didn't anything, then you pretty much a job for life," says Eileen Foreman, Atlantic's manager of management ation. "We want to encourage people allenge assumptions, to be critical ers, and to break the rules."

Ford has been using education to encourage cooperation across disciplines. Ford managers break into "multidisciplinary" groups to delve into such issues as marketing to women and the relationship between employee and customer satisfaction during a 10-day-long program held at Duke University. The idea: As managers debate the real-world issues they deal with back at work, they should be able to break out of their own narrow mindsets. "The program helps develop product-oriented mark-eting people and marketing-oriented product people," says Basil J. Coughlan, vice-president for North American marketing operations at Ford.

Some companies have begun using so-called action learning: Instead of passively sitting through lectures, managers engage in a series of team-building exercises and projects tied to real issues. In an in-house program, Cigna Corp. puts together teams of a dozen managers for a month of intensive training. One recent group studied the strategic direction of one of the insurance company's key business units. "We take what we consider our biggest business challenges, and a group of really talented people, and expect that they will take a fresh look at the issues," says Marilyn Gardner, vice-president for corporate training.

"VERY REAL." Cigna's managers spend the initial week getting to know the business they'll be delving into. Then smaller groups fan out across the U. S. to conduct interviews with customers, competitors, agents, brokers, and employees. When they return, they spend a week sifting through data and coordinating their research. The final leg of the month-long session is used to produce recommendations that are presented to senior management. Instead of poring over old, static case studies of problems at other companies, the executive students grapple with challenges that confront Cigna. "The combination of academics and [application] to a Cigna business issue made it very real to me," says David A. Gordon, a vice-president who went through the program.

Ameritech Corp., now putting its top 1,000 managers through intense off-site workshops, even sends executives to work for an afternoon in soup kitchens, housing projects, and AIDS clinics, all as team-building exercises. It also invites customers into classrooms to tell it like it is, giving managers a chance to hear complaints face-to-face. After three days, managers lead their own employees through the same exercises.

That's key in the effort to give executive education the impact to change a company. Making Ameritech's managers accountable for teaching others forces them to take these programs more seriously. "There has to be total commitment, otherwise it becomes a flavor of the month," says Ameritech President Richard C. Notebaert, who has attended 18 of the company's 20 educational sessions.

Motorola Inc., long regarded as a lead-

er in executive education, also recruits its executives as teachers in its in-house programs. "When you have to teach, you are forced to learn the greater nuances and details of the changes you are asking people to make," says William Wiggenhorn, president of Motorola University. And a course taught by the boss is bound to have more weight than one led by a professor or consultant.

That sort of commitment from the top is a must—but it's just a start. A class, no matter how focused and no matter who teaches it, cannot transform a company. "You probably can't turn a culture around with an educational program alone, but when a program is tied directly to strategy, it does make a difference," says Joseph L. Galarneau, executive-education director at AT&T.

Employees will only change if they given real incentives to do so. "Ultima ly, training will die if you don't get la numbers of people involved and do change some of your rewards and str tures," says Jay Conger, a professor McGill University. Sounds like pre good, if familiar, advice: Practice wh you preach.

By Lori Bongiorno in Philadelp

20 LEADING INSTITUTIONS FOR EXECUTIVE EDUCATION

Executive-education enrollment is off at many business schools and other institutions. This year, for example, the University of Michigan's participants fell to 5,170 from 5,530 two years ago. And 1,610 executives participated in Duke University's Fuqua School's programs, down from 2,500 in 1991. Possible reasons? Tough economic times have caused some companies to cut their spending or education, and downsizing has left many with fewer managers to train. Still others are keeping executive education in-house. But for companies that still have money to spend at business schools there are some impressive new additions at the schools below.

School	Annual revenues Millions	Customized programs*	Participants	What's new
ASHRIDGE MANAGEMENT HERTFORDSHIRE, U.K.	$10.5	55%	4,420	Forum for women managers; launched two human-resources seminars; sends managers to a developing country for 12 days
BABSON BABSON PARK, MASS.	3.3	50	1,150	Offers seminar for managers moving from technical to managerial roles; program with Ashridge prepares executives for jobs with global focus
CENTER FOR CREATIVE LEADERSHIP GREENSBORO, N.C.	21.2	31	14,800	Added leadership seminars for downsized organizations, entrepreneurs, and managers trying to emphasize quality
COLUMBIA NEW YORK	8.0	29	1,800	Added courses on building teams, creating the customer-oriented company; also installed action plans in human-resources seminar
DARTMOUTH (Tuck) HANOVER, N.H.	2.0	0	300	MBA Update 2000 introduces executives to newest management ideas; program on "core competencies" for managers with strategy-level responsibilities
DUKE (Fuqua) DURHAM, N.C.	7.3	47	1,610	Two new seminars for midsize companies—for general management and for developing European initiatives; exported management program to St. Petersburg
HARVARD BOSTON	25.6**	1**	1,620**	Launched workshop for CEOs to improve effectiveness of their boards; seminar prepares chiefs and their direct subordinates for strategic change
INSEAD FONTAINEBLEAU, FRANCE	20.2	30	2,490	Added pair of leadership seminars for top executives; strategy course for Eastern Europe looks at political and economic changes and cultural challenges
MIT (Sloan) CAMBRIDGE	9.0	5	1,010	Partnership with 11 U.S. companies explores critical factors in world-class manufacturing—companies include Boeing, Chrysler, and Hewlett-Packard
NORTHWESTERN (Kellogg) EVANSTON, ILL.	11.2	28	3,280	Adopted alternative format for advanced executive program that meets twice a month from September to May instead of for four weeks straight
IMD LAUSANNE, SWITZERLAND	15.8**	20**	2,000	Extensive program for owners and top-level managers of midsize companies meets for two separate 12-day periods
LONDON BUSINESS SCHOOL LONDON	8.7	40	1,880	Gary Hamel directs strategy seminar for top executives; medical marketing program with UCLA features professors from both sides of the Atlantic
PENN STATE (Smeal) UNIVERSITY PARK	4.3**	45	1,010	Five-day general management program for middle managers includes feedback from colleagues to help managers assess strengths and weaknesses
STANFORD STANFORD, CALIF.	7.2**	0	600	Joint program with Monterrey Institute of Technology in Mexico co-taught by Mexico faculty emphasizes cooperation and trade in North America
UCLA (Anderson) LOS ANGELES	4.0	25	1,220	Added executive programs for Korean and Malaysian companies; teaches corporate finance to Mexican executives
MICHIGAN ANN ARBOR	19.0	20	5,170	Joint program with IESE in Barcelona will be held in Switzerland for the first time in 1994 to prepare managers for global competition
NORTH CAROLINA (Kenan-Flagler) CHAPEL HILL	2.8**	36	1,280	Offers manager-development seminar for middle managers who want to strengthen cross-functional skills and prepare for future leadership roles
PENNSYLVANIA (Wharton) PHILADELPHIA	17.0	50	4,200	A Director's Institute formed with Spencer Stuart Assoc. will offer first two-day session in December to help directors do their boardroom jobs better
SOUTHERN CALIFORNIA LOS ANGELES	3.5	28	3,410	Executive briefing series features day-long presentations by some of USC's most famous professors—including Warren Bennis and Edward E. Lawler III
VIRGINIA (Darden) CHARLOTTESVILLE	9.3	20	2,000	Teaches general management to scientists and engineers; offers program for emerging political leaders

*Percent of revenues from programs designed specifically for client companies **BUSINESS WEEK estimates

DATA BUSINESS WEEK (RESEARCH BY JUDI CROWE AND ANDREW WALLENSTEIN)

HE PROFESSOR S IN

ore companies are bringing teachers to the office

When Dow Chemical Co. decided to use executive education as a tool to help achieve its tegic objectives, the company shopped nd at nearly all the top business ols. Unsatisfied that any school could ver the kind of program it wanted, v decided on a little home schooling. he company scouted out the best B- ol professors it could find and ight them in to teach its managers executives in corporate classrooms. Dow, a growing number of corpora- s, from American Telephone & Tele- h to Glaxo, are discovering they cherry-pick top experts and plop n into their own programs.

ompanies like the in-house approach use it lets them tailor executive ed- ion to specific company issues or s. "Universities are wonderful places individual development," says An- y J. Fresina of Executive Knowl- eWorks, a consultancy that helps panies design in-house curriculums hire business-school professors to h them. "But you can't focus and a company in those places." Of se, business schools have tried for s to help big corporate clients make utive education more useful by de- ing customized programs. But com- es are opting to create their own ses because they can cast a wider or the best faculty—at lower AT&T estimates that in-house rams save about $2,000 per ent.

ITY CHECK. Executives at Dow nical were frustrated by the of real-world practicality in itional executive-education rams. When its managers re- ed from general-enrollment rams at business schools, they were unable to say how would approach their jobs ently, says Larry Ward, man- of executive development. up to them to make a connec- between what happened at ard and what's happening at ," says Ward. "They need to the linkage, and it's an ef- for them."

ow wanted to make its execu- more responsive to custom- So it created an in-house Ex- ve Leadership Series. The 2½-day seminar brings 25 Dow managers together with five major customers, including companies such as Hewlett-Packard Co. and Rubbermaid Inc., along with professors from business schools at the University of Michigan, the University of Southern California, and the London Business School. Some 300 managers have been through 11 sessions since 1990. "It changed my view of the company a bit," says James A. Cederna, a group business director who participated in a 1992 session. "Many of us are in charge of running divisions, but this was a more concentrated way of looking at the total."

Of course, there are pitfalls to professor-picking. Some companies opt to showcase stars of the B-school pantheon. Critics argue that at rates as high as $20,000 per day, these profs rush in for guest appearances, seldom getting to know the company or its problems. "Some [professors] are up for the one-night stands and some are much more interested in long-term, ongoing relationships," says Dean Kropp, a professor at Washington University's John M. Olin School of Business.

The savvier companies, such as Champion International Corp., favor experts with less marquee value, figuring they're more likely to study the company and play an instrumental role in implementing changes. These professors typically charge $5,000 to $12,000 per day, depending on how much preparation and traveling they must do.

ENTHUSIASM. Champion's most recent program featured the University of Michigan's David Ulrich, a human-resources expert, and Vijay Govindarajan, a professor at Darmouth University's Amos Tuck School of Business who teaches strategic cost management. They and other professors examined Champion's efforts in marketing, finance, human resources, and manufacturing, and helped managers ensure that their work fit with the company's overall strategy. "At the end of the program, I directly apply the lessons to that specific company," says Govindarajan. "You become part of the change process in some sense."

The internal approach is not without its drawbacks, of course. Combining faculty from different universities and consulting firms in a single seminar can make it hard to coordinate presentations into a seamless program. And students lose the outside perspective they would get by mingling with other companies' executives in off-the-shelf programs.

Nevertheless, much of Corporate America believes that it's more important to link educational and training efforts directly to corporate objectives. "Everything is a trade-off, and we feel it's worth it," says Dow Chemical's Ward. There's a lot of enthusiasm for the in-house approach—though still few numbers to back it up. In the end, only performance will keep these professors moonlighting in corporate classrooms.

By Lori Bongiorno in New York

THE PICK OF THE B-SCHOOL CROP

Management-school professors in demand for in-house corporate education programs

Professor	Business school	Expertise
JAY CONGER	McGILL UNIVERSITY	Leadership
RAM CHARAN	FREELANCE*	Strategy
VIJAY GOVINDARAJAN	DARTMOUTH (TUCK)	Strategy
DAVID REIBSTEIN	PENNSYLVANIA (WHARTON)	Marketing
LARRY SELDEN	COLUMBIA	Finance
ALAN SHAPIRO	SOUTHERN CALIFORNIA	Finance
HIROTAKA TAKEUCHI	HITOTSUBASHI	Marketing
DAVID ULRICH	MICHIGAN	Human resources
JOHN WHITNEY	COLUMBIA	Management
PAUL FARRIS	VIRGINIA (DARDEN)	Marketing

*Former Harvard and Northwestern faculty member, now teaches executive education at Wharton and Columbia

DATA: BUSINESS WEEK

TULANE CONNECTION: STUDENTS IN TAIPEI

B-SCHOOLS BITTEN BY THE GLOBAL BUG

U.S. universities have started exporting executive MBA programs

Every other Thursday for the past 15 months, Charles Cooper-Driver flew from London to Philadelphia. Another business trip? Hardly. He was going to school, attending the executive MBA program at the University of Pennsylvania's Wharton School. "The travel time is not that bad," says the managing director of a London-based marketing communications firm. "You get very used to functioning under jet lag, and you can get a lot of studying done on the plane."

Although Cooper-Driver was good-natured about his commute, he would have had an easier time if he had stayed closer to home. Problem is, there are few quality executive MBA programs available outside the U. S. But that may change as more schools export the EMBA concept.

CHICAGO TEST. The degree—typically sought by executives with 10 or more years of experience—is cropping up from Barcelona to Rotterdam to Taiwan, as U. S. schools team up with foreign universities. The University of Rochester's Simon Graduate School offers an EMBA with Erasmus University in Rotterdam, and Tulane University's Freeman School of Business boasts a joint program with National Taiwan University.

One school is about to take the plunge without any help from foreign partners. The University of Chicago's Graduate School of Business will transplant its successful EMBA program to Barcelona next year. "It will be like IBM setting up a European subsidiary," says Dean Robert S. Hamada. "We will make it feasible for executives to fly in from all over Europe, stay a week or two, and then go back to their offices."

Whether they go it alone or use a partner, more U. S. schools may follow. "If Chicago is successful, it's going to be irresistible for other major U. S. business schools to come into that market," says Richard Kwartler, publisher of the *Executive MBA Newsletter*. Already, Duke University's Fuqua School of Business is considering a program in Russia, where it has offered a nondegree program since September. The University of Michigan has begun an EMBA-like program in Hong Kong for Cathay Pacific Airways managers. Wharton may link up with the London Business School to offer an exchange program for EMBA

The reason? "We are all str ing to increase our internatio visibility, enhance international culty development—and everyb is looking for attractive financ opportunities," says B. Jose White, dean of Michigan's Gradu School of Business. There's growi demand abroad for such progra because managers who live in E rope don't have to quit their jo to get the degree.

The most ambitious effo abroad comes from Chicago, wh in 1943 became the first B-school offer an EMBA. Before deciding Barcelona, Chicago hired two co sulting firms to do market resear and interviewed executives at ne ly 180 European companies. Bar lona offered easy airport acce and it's an attractive city to visit. helped that a Spanish bank holdi company donated a building.

Chicago hopes to attract 80 forei managers a year to the program, wh will last about 17 months, with 14 wee of instruction in one- and two-we blocks. The program will be taught Chicago's faculty. One benefit of the p gram, Dean Hamada hopes, will be pl ty of cross-fertilization. He expects pro sors who teach in Barcelona to resea international business problems and bri their European experiences back to th home classrooms. Hamada also plans mix his EMBA students together. The E ropean executives will fly to the U for a two-week stint in the Windy C while Chicago's EMBA candidates will to Barcelona for a two-week stay ther

More typical are the programs offer in partnership with local schoo Rochester's Simon School has offered EMBA with Erasmus in Rotterdam sin 1986. About one-third of its EMBA class abroad are taught by Erasmus faculty an 18-month-long program. Students tend classes on Fridays at Erasmus a spend nine weeks of summer in Roch ter for intensive training.

Similarly, Tulane's Freeman Sch ships professors to Taiwan twice ov the course of a 15-month program w National Taiwan University. Executi students in the program, which beg last January, travel to New Orleans begin and end their studies. If U. S. schools continue transcending natio boundaries, then managers such as Co er-Driver won't have to suffer jet lag earn a quality executive MBA.

By Lori Bongiorno in New Y

The University of Chicago settled on Barcelona after hiring two consulting firms and interviewing hundreds of execs

20 LEADING B-SCHOOLS OFFERING THE EXECUTIVE MBA

For years, business-school deans talked about putting more international content into U.S. classrooms. Now, many of them are taking the notion a bit further—sending their executive students overseas. Nearly half of the nation's executive MBA programs boast study tours abroad, up from just 25% five years ago.

All the schools on BUSINESS WEEK's list of executive MBA leaders offer an international seminar or study tour, with the exception of Columbia University and the University of Washington. Columbia University's program will begin offering an international seminar next year. Some schools make the trips mandatory, while others offer them as pricey options. But a growing number of schools are serving up more than just a single overseas adventure. In addition to a one-week trip to Japan, Washington University's Olin School provides a four-week elective on finance and capital markets in London. EMBAs at the University of Texas can study in England, Mexico, and France.

While critics belittle some of these trips as little more than group vacations, more schools than ever are making them demanding educational whirlwinds. UCLA uses its international trip as a key component of a six-month-long consulting project for a non-U.S. company. This year, EMBAs are studying Nokia, a Finnish telecommunications company. New York University requires executives to study Japanese or Russian economics and history before exporting them to Japan or the former Soviet Union for a week-long residency tied directly to courses on global strategy and general managers.

Back at home, the programs don't differ all that much. They offer seminar-style MBAs for managers with a decade or more of work experience. The programs tend to run for two years, and classes usually meet on alternating Fridays and Saturdays. Many also require periods of on-campus residency. Students are generally sponsored by their companies, which help foot tuition bills and allow for time off from work to attend class.

ool	Total tuition	Avg. years in work force	Avg. salary of manager	Female enrollment	Highlights
STON NGSBORO, MASS.	$39,825	13	$72,000	24%	EMBAs select week-long seminar abroad. Traveled to Prague and Budapest last year to study emerging capitalist economies.
ICAGO ICAGO	42,000	15	86,000	22	Pioneer of EMBA format is moving program into a new $44 million building next year. Launching program in Barcelona.
LUMBIA W YORK	62,500	10	105,000*	25	New curriculum emphasizing four key themes: global management, ethics, quality, and human resources. Will add international project trip.
KE (Fuqua) RHAM, N.C.	44,000	12	88,000*	12	Going global by putting more non-U.S. content in core courses, offering international electives. Big users include AT&T, IBM, and GE.
ORY ANTA	39,200	15	83,000	26	New focus on global marketing and managing customer relationships. Boasts field projects linked to work back at the office.
INOIS BANA-CHAMPAIGN	26,200	14	59,000	20	Putting candidates' companies' cases into classes. Requires consulting project with social-service agencies. Global trip optional.
CHIGAN STATE (Broad) T LANSING	24,400	13	60,000	12	Location is prime for big three: GM, Ford, and Chrysler. Now requires 14-day international excursion to Far East or Europe.
NNESOTA (Carlson) NEAPOLIS	32,000	16	65,000*	25	Overseas trip to Budapest features course as well as government and company visits. Major clients include 3M, Honeywell, U S West, Cargill
RTHWESTERN (Kellogg) NSTON, ILL.	43,500	15	99,000	19	Added core course in negotiation and elective in information management. Major clients include GE, Baxter. Foreign trip optional.
U (Stern) W YORK	63,200	11	85,000	31	Attempts to put only star teachers before EMBAs. Half of class travels to Japan, half to Eastern Europe and Russia.
NNSYLVANIA (Wharton) LADELPHIA	63,450	10	109,000	31	Allows exceptional latitude, with students picking 9 of 19 courses. Will launch new and innovative curriculum for EMBAs next year.
TTSBURGH (Katz) TSBURGH	28,000	14	55,000	30	Added global course and exercises in leadership, communication, and teams. Also offers Purdue-like "flex" program ideal for out-of-towners.
RDUE (Krannert) ST LAFAYETTE, IND.	28,500	12	94,000	22	Learning via computer: Execs meet only six times, for two-week residencies. Otherwise, they network and study using computers.
UTHERN CALIFORNIA ANGELES	32,520	16	79,000	29	Launched strategy consulting project with top managers of client companies. Added six electives, from Great Books to Market Research.
UTHERN METHODIST (Cox) LAS	29,940	18	92,000	20	Assesses managers' leadership qualities prior to entering program and again at end. Draws experienced crowd, averaging 38 years old.
KAS TIN	21,800	12	80,000*	25	Nearly one in four executives from nonprofit sector. All spend week of program in London. Option to study in Mexico and France
LA (Anderson) ANGELES	44,000	14	110,000	28	Gone high-tech with "wired" classrooms and laptops. Boasts field-study projects with non-U.S. companies such as Sony and SGS-Thomson.
SHINGTON TTLE	32,000	14	60,000	40	Mentor program matches entering managers with EMBA alumni to help them adjust to demands of balancing full-time job with school.
SHINGTON (Olin) LOUIS	39,300	14	65,000	26	Washington, D.C., and Tokyo residencies. Students also spend four weeks in London for credit as part of summer elective option.
STERN ONTARIO DON, ONT.	31,580	14	70,000*	18	One of Canada's best B-schools launched program in 1991. Boasts "best-practices forum" to aid in benchmarking, and study in China.

NESS WEEK estimate

DATA BUSINESS WEEK (RESEARCH BY JUDI CROWE AND ANDREW WALLENSTEIN)

PUBLIC COMPANY, PRIVATE FIEFDOM?

As Ferrofluidics floundered, the CEO and his family reaped a fortune in pay, perks, and stock

In issuing one of its quarterly reports last year, Ferrofluidics Corp. offered to send shareholders a 1992 brokerage report on the company. No wonder. The report forecast that Ferrofluidics, a small and struggling maker of high-tech industrial seals based in Nashua, N. H., would skyrocket: Sales would quintuple by 1996, to $150 million, and operating profits would go up tenfold. Ferrofluidics promised that the report was "based on independent research."

Or maybe not so independent. The Securities & Exchange Commission is investigating whether the company secretly commissioned and paid for the report, which legal experts say might have violated securities laws. That spurred a broad SEC probe into a raft of questionable practices at Ferrofluidics, ranging from possible stock manipulation to breach of disclosure obligations.

The most serious questions involve longtime Chairman and CEO Ronald Moskowitz, who recently retired after a committee of outside directors conducted an internal investigation and called for his ouster. Moskowitz says: "I deny any wrongdoing" in conjunction with the SEC investigation. But public documents show that Moskowitz treated publicly-traded Ferrofluidics like a private fiefdom, to be milked for personal gain.

In the past five years, Ferrofluidics has posted total losses of $17.7 million. It lost $10.4 million on sales of only $29.6 million in the last fiscal year. But with the board's docile approval, Moskowitz and his family trusts have reaped more than $16 million in pay, bonuses, perks, and profits from exercise of stock warrants over the five-year period. In fiscal 1992 alone, Moskowitz and family entities made at least $8.9 million from Ferrofluidics.

And that's not all. At times, Ferrofluidics has lent Moskowitz millions and guaranteed his personal bank loans. The company's second-largest single asset is a $15 million insurance policy on Moskowitz' life. A son, Jeffrey, was paid a hefty commission as an insurance broker for selling Ferrofluidics a $6 million joint life-insurance policy on Moskowitz and his wife, Phyllis.

In an era of heightened attention to corporate governance standards and "pay for performance," the Ferrofluidics saga demonstrates that small companies dominated by a strong individual can still run roughshod over investors. Indeed, from a peak of 44 in 1983, the stock now sells for less than 8. "This ranks up there with the most egregious situations I've ever seen," says A. Camille Nichols, president of Investors' Fiduciary Services Inc., an Atlanta-based adviser to institutional investors on corporate pay and performance issues.

Moskowitz, who co-founded Ferrofluidics in 1968 and says he has a PhD in electrical engineering and applied physics, defends his compensation as "appropriate" in light of the company's circumstances. "I'm the world's leading expert in ferrofluids," he says. "My compensation was not modest, but it was modest in comparison with what professional athletes and entertainers make. In any given year, it may have come out on the high side. But in others, it was on

RONALD MOSKOWITZ' GRAVY TRAIN

Directors regularly O.K.'d his pay enhancements

WARRANTS From 1988 to 1990, Ferrofluidics granted Moskowitz 1.6 million stock warrants, the equivalent of about 50% of the company's stock. After the stock tumbled in 1990, the board canceled 950,000 warrants exercisable at an average of $12.86 and reissued them at $5. Since 1989, Moskowitz and family members earned at least $12 million from warrants.

PAYS, PERKS, EMPLOYMENT CONTR From 1987 to 1992, Moskowitz pulle more than $3 million in pay, averagin $516,000 a year. Perks included pers security, cars, and club dues. When h CEO, Moskowitz's employment contrac tended to June 30, 2001, guaranteein at least $400,000 a year plus perks a benefits.

low side. Over 25 years, I was not ageously compensated."

o buttress the claim that his compen- n was within normal bounds, Mosko- says Ferrofluidics' board sought ad- from Towers Perrin, a respected ensation consulting firm. But Bruce Hanson, a vice-president at Towers in's Boston office, says his firm was ined by Ferrofluidics only once, in , and then only to advise on owitz' pay—not his warrants or oth- enefits. Still, Hanson has continued follow the company and says owitz' compensation "is probably nost out of line I've encountered in 20 years of compensation consulting."

Ferrofluidics was founded in 1968 to develop "ferrofluid" technology licensed from NASA. The technology entails suspending microscopic iron particles in special fluids, then applying a magnet to manipulate the fluids. Moskowitz and a former partner figured it could be used to make seals for mechanical spindles or rotors: A magnet applied to the rim of a ferrofluid seal creates an airtight closure. By the time it went public in 1981, Ferrofluidics was growing fast. Its products caught on in such industries as chipmaking and disk drives. Today, nearly every computer hard drive contains a tiny ferrofluid seal. From 1983 to 1985, sales tripled, from $10.8 million to $31.3 million.

Moskowitz started living well. He bought a large house near company headquarters and another near Palm Beach, Fla. In 1985, he and a partner broke ground on Harris Pond, a real estate development in Merrimack, N. H., with retail space, offices, and 144 condo units. But the project soured, and many of the units were unsold when the New England real estate market crashed in 1989. It was, says Moskowitz, "the worst investment I've ever made."

In that period, Moskowitz' compensation started soaring. In September, 1988, proxy material showed that he owned just 600,000 shares and warrants for additional shares, or 16.6% of Ferrofluidics' stock. But by July, 1989, the board had granted him warrants for an additional 1.1 million shares. Unlike most incentive stock options that have a long vesting period to encourage future performance, Moskowitz' warrants were immediately exercisable and could be transferred. "The warrant program effectively circumvented the purposes of stock-option plans," says consultant Nichols.

Trying to sugar coat the warrants, proxy statements said the CEO had agreed to give up large amounts of future pay in exchange for them. In fiscal 1990 and 1991, for example, Moskowitz "waived" $2 million in exchange for warrants. He still made over $1.6 million in those years combined. The waiver, says Hanson, "was glaringly unorthodox."

Moskowitz' employment contract had other provisions that would make many CEOs envious. His July, 1990, contract guaranteed him a $400,000 base salary, a $24,000 home-office allowance, $20,000 for club dues, and $36,000 for his three company cars. The company also agreed to pay for a full-time household employee at Moskowitz' home.

"GOOD SALESMAN." For a company of its size, Ferrofluidics spent a bundle on life insurance. True, companies often buy term insurance that pays the company a death benefit if an important executive dies. In 1988, for example, Ferrofluidics bought a pricey whole-life policy—a $5 million premium for a $15 million death benefit—to insure Moskowitz. But under the terms of this policy, Moskowitz' estate would have received $5 million from the policy, plus accumulated earnings.

Why did Ferrofluidics' directors approve these transactions? Several directors were longtime Moskowitz associates. But outside directors also went along, including Robert P. Rittereiser, a former chief executive of E. F. Hutton Group and a director since 1989. Rittereiser declined to comment. Dean Kamen, another outside director, says he never saw the details of Moskowitz' employment contract. But, he says, Moskowitz always presented transactions to the board as being neutral toward him and a plus for the company. Moskowitz, says Kamen, "was a very good salesman." One former director says Moskowitz totally dominated the board.

While Moskowitz' paycheck got fatter, Ferrofluidics' fortunes were floundering. Troubles began in 1986, mainly because the disk-drive industry was moving offshore and component prices were falling. Potential new applications for ferrofluids didn't materialize as quickly as hoped. After posting a loss in 1986, Ferrofluidics sold its key Japanese subsidiary for a big one-time gain in 1987. That was the year Ferrofluidics' reve-

KS 1989, Ferrofluidics guaranteed n ion in bank loans so Moskowitz d ercise warrants. But a 1990 p the company's stock cut ko tz' collateral. The company re- ed guarantee but lent Moskowitz t n ion. Auditors forced the company ke $1.4 million write-off on ko z' loan transactions.

LIFE INSURANCE Ferrofluidics paid for at least three life-insurance plans for Moskowitz. One $15 million "key man" policy would have paid his estate $5 million on his death. The policy also let Moskowitz receive $1.5 million annually tax-free from 1988 to 1993. Moskowitz' son Jeffrey, once an insurance broker, got the commission on an additional $6 million life policy.

GIVEBACKS Proxy statements said Moskowitz voluntarily relinquished future income in exchange for warrants or other benefits. But Moskowitz' actual take-home pay kept rising. How? His paycheck was artificially inflated by huge onetime bonuses, which he then "waived." In 1991, he waived $750,000, but his pay rose $800,000.

DATA: COMPANY REPORTS, BUSINESS WEEK

nues peaked, at $35 million. A disastrous British acquisition fueled further declines. Ferrofluidics stock tumbled from 20½ in late 1989 to 5 by late 1990.

The slumping stock put renewed pressure on Moskowitz' finances, for the company's stock was his main asset. He also was deeply in debt to Boston-based Wainwright Bank & Trust Co. The bank's 1990 proxy statement shows that Moskowitz, a director of the bank, had borrowed $5 million for personal use as of Mar. 8, 1990.

Complicating things even further, Moskowitz' finances had become so intertwined with Ferrofluidics' that both were in danger of going down in flames. The problem: Back in 1989, Ferrofluidics had guaranteed a $6.9 million loan Moskowitz had taken out from Fleet Bank to exercise warrants. But by mid-1990, Moskowitz' loan collateral was nearly worthless. Ferrofluidics' auditors were pressing for a $5 million write-off of the loan guarantee in fiscal 1990. That would have been disastrous, though, because the company was already planning a $13 million restructuring charge. "There was a lot of fear that if Ron went down, the company could go down as well," says Alvan F. Chorney, a Ferrofluidics senior vice-president and longtime director.

In a complex series of transactions in October, 1990, Ferrofluidics lent Moskowitz even more money to pay off part of his Fleet loan. In return, Fleet reduced the company's obligation to guarantee Moskowitz' loan. That allowed Ferrofluidics to take just a $1.4 million write-off on the loan guarantees, far less than the $5 million auditors had been demanding.

NEW WARRANTS. The board gave Moskowitz' anemic personal balance sheet another infusion. Two days before the Fleet loans were restructured, it agreed to cut the exercise price on 950,000 of his warrants from an average price of $12.86 to the then-market price of $5. That turned nearly worthless warrants into something much more valuable. A few days later, the board issued Moskowitz an additional 550,000 new warrants, also exercisable at $5.

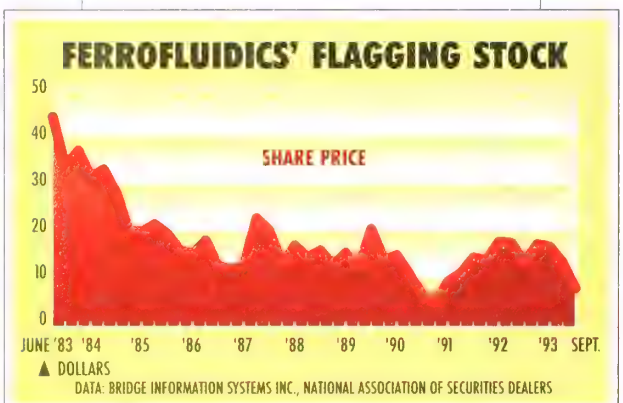
Moskowitz denies that the deal was aimed at bailing him out of his personal financial troubles. He says he was under no legal obligation to pay off the Fleet loan early. But he felt that a $5 million write-off "would have been imprudent" for the company. "As Ron Moskowitz, I shouldn't have done it," says Moskowitz. "But it was my fiduciary duty to look after the interests of the company." The repricing and issuance of warrants, he adds, was done by the board "in recognition of that."

Fortunately for Ferrofluidics and Moskowitz, the company's reported earnings bounced back in 1991. It posted $3.6 million in profits on $24.4 million in revenues. The improvement stemmed in part from the restructuring and several large onetime gains, including a $930,000 credit that resulted from Moskowitz repaying part of the loans that had been written off.

At the same time, the company's prospects seemed to be brightening because of a push into the petrochemical industry. By putting its seals on refinery pumps, Ferrofluidics argued the industry could dramatically cut vapor emissions. Several large oil companies have since tested new pumps sold by a joint venture of Ferrofluidics and BWIP Holding Inc.

The petrochemical initiative was the basis for the Mar. 30, 1992, brokerage report that the SEC is now investigating. The report was written by free-lance securities analyst Sheldon S. Traube and published by Dickinson & Co., a Des Moines-based brokerage. It forecast the joint venture would bring in revenues of $145 million and a staggering $48 million in operating income in fiscal year 1996. Moskowitz claims that jibed with the company's internal estimates. Yet BWIP says the venture expects to sell 150 pumps in 1993, less than one-tenth the number that Traube forecast for this year.

Over-optimism is not a crime. Secretly funding an analyst's report might be. Insiders confirm that Ferrofluidics paid Traube about $5,500 to write the report. Speaking in general terms only, the SEC's chief of enforcement, William R. McLucas, says that a company that pays for securities research could be in violation of stock-manipulation rules. What's more, he maintains, SEC regulations require full disclosure of the source and amount of such payments. The Mar. 30 Dickinson report contained neither.



Thomas M. Swartwood, Dickinso general counsel, says: "I am not aw of any payments made to Dickinson Co. by Ferrofluidics. I don't know they paid Traube or not." Jeffrey T. lenbock, Traube's lawyer, says: "I Traube did nothing wrong." Ferrofluic won't comment on the report but mits it requested and paid for a follo up report from Dickinson when it re ized it couldn't meet the 1992 foreca The new report, which disclosed it written "for cash compensation," cut estimates for fiscal 1991 and 1992 maintained the forecast for 1996.

OPTIMISTIC. Even before the report, timism about the petrochemical m helped buoy the stock past 14 in 1991. Two Moskowitz family trusts be exercising their $5 stock warrants a sold shares up to $18. In total, the fa ily entities reaped gains of at least $ million from stock sales in 1991 and 19 Moskowitz sold an additional 225,0 shares in early 1993 for a profit of $ million. The family's stake in the com ny, which reached 66% in 1991 now about 11%. The funds flo ing into his family coffers e bled Moskowitz to pay back Fleet-related loans to Ferroflu ics by June 1, 1992. By the e of 1992, his debts to Wainwrig Bank had been cut to $ million.

Despite his forced retirem in September, Moskow shouldn't have any more pers al balance-sheet problems. He cently sold the rest of the Ha Pond condo units at a cut-r price, ending that debacle. A under the terms of his retirement, he tains many valuable perks, including four-year consulting contract that sta at $250,000 a year and goes down $50,000 per year.

Moskowitz' departure has left Fer fluidics weakened but still standing. P F. Avery Jr., an outside director, taken over as chairman and CEO. T company faces potentially steep liab ities from the shareholder suits, wh the company says it will vigorously c test. But it says its banks are standi firm. And its fans remain enthusiast convinced that the environmental s will eventually take off.

Many Ferrofluidics employees are h py to see Moskowitz gone. Some ha learned a valuable lesson. "You proba could teach six months of business a corporate ethics at Harvard on this s ry," says one insider. With Moskow out of the way, perhaps Ferrofluid can invest in its technology instead enriching its chairman.

By Mark Maremont in Bost

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BusinessWeek

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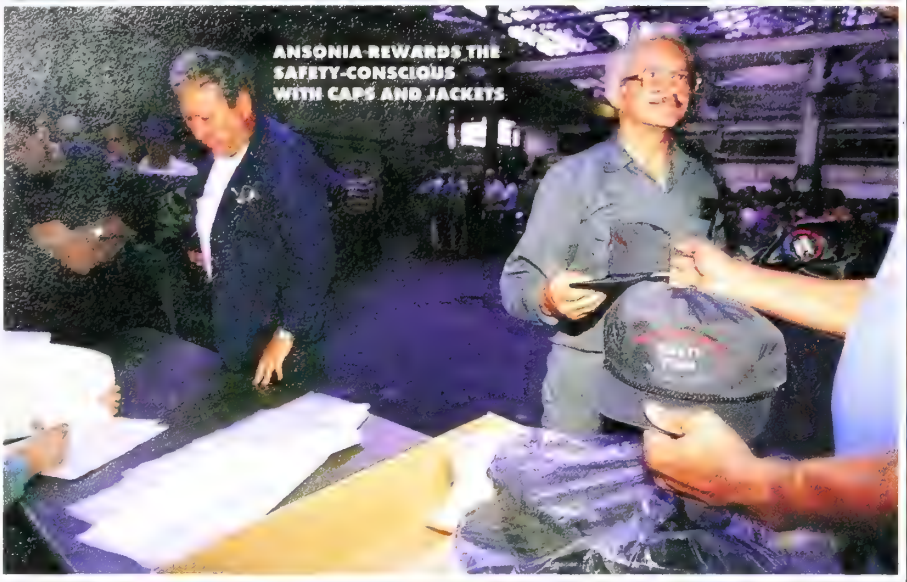

MAKING WORKERS' COMP WORK

Insurers reduce payouts by managing claims and stressing safety

After four years of rising workers' compensation costs, Ansonia Copper & Brass Inc. was near the breaking point. The Ansonia (Conn.) company's premiums were pushing $2 million per year, and injured workers were complaining that claims weren't being paid. If the costs of doing business in the state didn't fall, the company might have to leave. So in 1990, Ansonia made a last-ditch effort, switching to EBI Cos., its third insurer in seven years.

Three years later, Ansonia Copper & Brass is still in Connecticut. Upon switching to EBI, the change was almost immediate, says Ansonia President and Chief Executive George R. Wilson. EBI, a regional insurer in Farmington, Conn., paid claims that other insurers contested. And it improved safety for Wilson's 385 employees by talking with union representatives, and, among other things, installing safety guards on some machines. The result: Ansonia's employees have filed fewer and less costly workers' comp claims, decreasing the company's premium by 32.7% for 1993. "We've had other insurance companies promise what EBI's doing," says Wilson. "But it was just lip service."

At a time when much of the $30 billion industry is battling increasing claims and litigation expenses, many insurers have found ways to make money in workers' compensation insurance—or at least decrease claim costs. They have left unprofitable markets such as California and Florida. They have successfully petitioned a number of legislators to reduce benefits and combat fraud.

Most important, they're aggressively managing workplace safety and fostering less-hostile relationships with injured workers. Traditionally, insurers kept overhead down by, for example, givi case managers heavier workloads a stalling payments to injured worke But that can mean costly litigation. some insurers are spending more manage claims, working with emplo ers to improve safety, and requiri supervisors to report accidents as th occur. That results in more up-fro costs but smaller claims payouts.

Orion Capital Corp., EBI's parent, c ducts workplace inspections of potent clients, who usually have rising clai before writing a policy. If the employ agrees to Orion's safety recommend tions, the insurer provides coverag "The key to success is to prevent t claim in the first place," says Micha A. Smith, a Lehman Brothers Inc. a lyst. Orion targets "businesses where can achieve very quick savings throu improving safety." Then it maintai tight controls on claims expenses throu teams of nurses, attorneys, claims rep sentatives, and investigators.

MAIL-ORDER DRUGS. All of that pays Orion has lowered its expenses fr $1.33 for every $1 in premiums in 19 to $1.05 in 1992, vs. $1.21 for the ind try, excluding investment income. "O incentive to improve was one of co pany survival," explains Larry D. Holl Orion's executive vice-president.

Even multiline insurers, which ha long offered workers' comp coverage a convenience to clients, are changi Take Travelers Corp. In 1988, its penses topped the industry average. in 1989, the Hartford insurer beca one of the first to invest in manage care plans to treat injured workers. A it's saving 25% off drug expens through Tampa-based Pharmacy M agement Services Inc., which mails p scriptions directly to injured workers

Such steps aren't cheap. Travel has spent more than $100 million to prove results, says Richard Palczynski, a senior vice-pre dent. But its costs decreased fr $1.18 for every $1 in premiu in 1988 to $1.05 in 1992 a should be equal to that or low this year. How well worke comp performs is important Travelers' bottom line: It is 6 of the insurer's $4.5 billion co mercial insurance business.

The Clinton health-reform pl though, could upset these mov It recommends creating a co mission to study merging wo ers' compensation with health surance, which could undermi insurers' role. Insurers now w ry their years of efforts co wind up being too little, too la

By Chris Roush in Hartf

CUTTING WORKERS' COMP COSTS

TRAVELERS Hired more than 600 workers' compensation claims employees, reducing individual case load by 50%. Also added 350 utilization-review nurses.

ITT HARTFORD Set up a toll-free telephone line for employers to report workplace injuries. Early reports reduced payouts by 33%.

ORION CAPITAL Employs teams including nurses, attorneys, and investigators to determine whether a prospective client is committed to reducing costs.

CONTINENTAL Uses ergonomists to review tasks at businesses it insures and recommend changes to reduce work-related injuries.

DATA: COMPANY REPORTS

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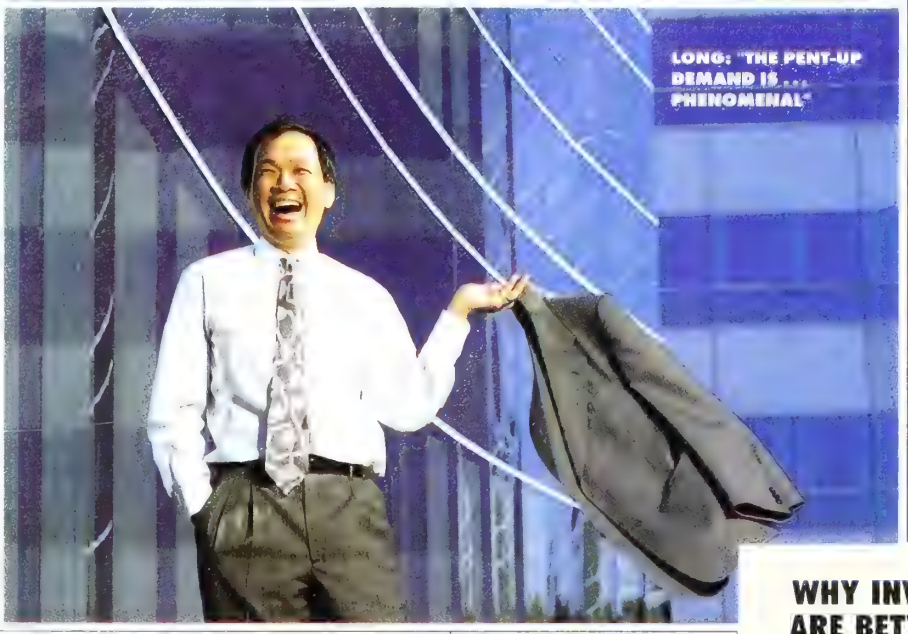
REAL ESTATE

PENNIES FROM HEAVEN FOR HOMEBUILDERS

Nontraditional investors are stepping in where banks fear to tread



It was an all-too-familiar scenario. Richard J. Rabil, president of homebuilder Van Metre Cos. in Burke, Va., was ready to scoop up 220 acres in nearby Fairfax at the bargain price of $4.5 million. His plan: build 44 homes that would sell for a minimum of $400,000 apiece. But the deal began to fall apart when the bank selling the property wouldn't lend Van Metre the money it needed to close the deal. Within days, however, Rabil was back on track. Heller Financial Inc., a Chicago finance company, agreed to put up the money and become equity partners with Van Metre. "We tried to bring in institutions like Heller in the 1980s," says Rabil, "but they just weren't interested."

Times certainly have changed. Badly burned by disastrous real estate forays during the 1980s, banks and thrifts remain stingy with the money they'll commit to residential construction lending. But homebuilders are rapidly finding new sources of institutional money willing to take a chance on a comeback in the long-moribund housing market. Like Heller, which first began seeking partnerships with homebuilders in 1991, an increasing number of institutions—insurance companies, "vulture" investors, and pension funds—are fast becoming infatuated with the prospect of potentially high returns in residential real estate.

It's easy to see why the smart money is enthusiastic. Record low mortgage rates and depressed home prices in many parts of the country are luring hordes of buyers. "The pent-up demand, especially for entry-level housing, is phenomenal," says John S. Long, a real estate investor in El Segundo, Calif., who started his own homebuilding operation in January. So far this year, existing home sales are running at an annualized rate of 3.8 million, the best year since 1979, according to the National Association of Realtors. Despite that strength, banks and thrifts that often funded the entire cost of residential development projects in the '80s now require builders to put up 35% or more in equity for a project. And many, burned by soured loans on raw land, refuse to lend at all for land development, the high-risk phase in a project wh the streets and sewers are put in.

Nontraditional money sources feel t rewards are well worth the risks. "The is a gigantic arbitrage opportunity her says Tom Barrack Jr., chairman of Co ny Advisors in Los Angeles. Barrac who invests money for institutions su as Merrill Lynch & Co. and Cargill nancial Inc., made his first move in the residential market last spring. bought $470 million in performing a nonperforming loans from Resoluti Trust Corp., backed largely by reside tial lots. Within the next 12 months, expects to spend an additional $300 m lion buying residential land from ban and insurers and joint-venturing wi builders to develop it. Goldman, Sachs Co.'s $1 billion Whitehall Real Estate vestment Fund is looking at similar de and investments in existing homebui ers, says Vice-President Barry A. Shole

TRICKY ODDS. Pension funds are also g ting into the game. At the Californ Public Employees' Retirement Syste which has committed $300 million ov the past year to residential projects California, chief investment officer D Witt F. Bowman says the fund is on t get to earn 20% annually on those inve ments. Prudential Home Building Inve tors Inc., a subsidiary the insurance giant, pects this month close a $100 million fu with three-quarters that from pension fun The money will be us as equity in joint ve tures with small a midsize homebuild across the country, ma of whom don't have t easy access to capi enjoyed by the lar publicly held homebui ing corporations.

To be sure, the ru into residential real tate carries serio risks. For one thing, banks step up th lending to homebuilde profit margins may el The new band of tr believers, though, is fazed by such scenari "We're providing capital in an illiq market," says Frank J. Zaccanelli, ecutive vice-president of Hillwood velopment Co., a land-development co pany headed by Texas investor R Perot Jr., which is making its fi plunge into homebuilding. To ca starved builders, that's an increasin familiar—and reassuring—refrain.

By Amy Barrett in Los Ange

WHY INVESTORS ARE BETTING ON HOMEBUILDING

TRADITIONAL LENDERS HAVE GONE Bank lending remains tight, particularly for development of land

HOME PRICES HAVE BEEN DECLINING Low home values in most regions, combined with lower interest rates, have buyers clamoring

PROFITS ARE HUGE Investors in homebuilding are now boasting returns exceeding 20% a year

DATA BUSINESS WEEK

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BY GENE G. MARCIAL

'GUNSLINGER' WEINSTEIN: STILL QUICK ON THE PICKS

Willie Weinstein, one of Wall Street's "gunslinger" traders in the 1960s and early 1970s, is back doing what he did best: Committing big bucks to huge chunks of stocks. He and his fellow traders at major brokerage firms were called gunslingers because of the gutsy way they snapped up shares. Weinstein now heads his own investment firm, Genesis Merchant Group in San Francisco, and his recent stock picks show his hot hand is still, well, hot. Charter Medical, Qualcomm, and Ocom were among his picks that have tripled in the past two years.

"Our only game," says Weinstein, is to "make money for clients by picking the right stocks, period." He limits Genesis' $1.4 billion portfolio to 30 stocks—primarily companies in the process of "significant change" that Wall Street has yet to appreciate. Aided by three analysts and a few partners, four-year-old Genesis has attracted big investors, including the Pritzkers of Chicago and entrepreneur Sam Zell.

Here's what Weinstein, who was chief trader at Oppenheimer for 13 years, is now betting on:

■ Charter Medical, whose shares he believes are still "misvalued" because of its unrecognized "excellent" psychiatric-hospital operations. The stock is "very attractive," adds Ted James, a Genesis partner and veteran medical industry analyst, given its strong cash flow and continued deleveraging. He sees earnings rising to $3.60 a share in fiscal 1994, up from an estimated $3 in 1993.

■ Community Psychiatric Centers' recent turnaround gives it a good chance of sharply accelerating earnings growth, says Weinstein, who notes that the company's balance sheet is a "fortress." Its equity comes to $450 million, and total debt is only $26 million. Weinstein sees profits jumping to $1.25 in fiscal 1994 from an estimated 50¢ this year.

■ Itel is positioned to benefit from the "explosive growth" in demand for copper, coaxial, and fiber-optic cable—used in cable TV and local-area networks—via its Anixter Distribution and Antec divisions. Expected to be in the red this year, Itel should earn $1 in 1994 and $2 in 1995, says Weinstein.

■ Equity Residential Properties Trust, the nation's largest REIT for apartment buildings, went public on Aug. 18 at 25 a share and swiftly jumped to 36. The stock is enticing, says Weinstein, because of the company's rapid growth, plus an annual dividend of $1.81 a share.

■ Recognition International markets data-retrieval and imaging products to companies that process huge amounts of paper-based information. Weinstein says that the company will be a big factor in the streamlining of "work flow," an area he expects will become a big market. He sees earnings rising to 84¢ in 1994 from 1993's estimated 32¢.

TOPS WITH WEINSTEIN

Stock	Recent price	P/E*	Two-year target price
CHARTER MEDICAL	$22	6	$35
COMM. PSYCHIATRIC	13	10	27
EQUITY RESIDENTIAL	35	22	52
ITEL	28	17	40
RECOGNITION INTL.	17	20	33

*Based on 1994 earnings estimates

DATA: BRIDGE INFORMATION SYSTEMS INC., GENESIS MERCHANT GROUP

DEEP ASSETS FOR AN OIL AND GAS PLAY

Few investors have been giving Patrick Petroleum a second look, and with good reason. This small independent oil and gas company has been in the red since 1990, so its Big Board stock has been locked between 2 and 2½ a share all year. But wait. Why is some of the smart money now buying shares?

Ever hear of Detroit Diesel? It's a hot offering that popped from 20 to 25 in one day at its initial offering on heavy volume. No, Patrick has no direct ties with Diesel, which makes engines for heavy trucks and buses. But of importance to Patrick is this: Roger Penske, who owns the transportation company Penske Co., owned 80% before the Diesel IPO. And Patrick owns 9.5% of Penske.

Patrick shares have become an asset play, explains Chuck Strain of Strain Consultants in Houston. He estimates that Patrick's stake in Penske—whose value has been enhanced by Diesel's hot stock—to be worth $2.78 a share in Patrick shares, exceeding Patrick's current stock price of $2.50.

Patrick owns and operates oil and gas properties in several states, including Louisiana, Michigan, Mississippi, Oklahoma, and Texas. Its oil and gas reserves, figures Strain, are worth $78 million, or $4 a share, including its 36% stake in Marcum Natural Gas Service. So Strain values Patrick's oil and gas reserves and its stake in Penske at $6.78 a share. Deducting its debt of $2.22 a share, Patrick is worth $4.55 a share, figures Strain.

HITTING THE JACKPOT OVERSEAS?

If you think the gambling stocks have peaked, you may be wrong. The pros continue to snap up gaming shares, and now they are zeroing in on International Totalizator System, a manufacturer of computerized lottery and horse-race wagering systems which was discussed in this column in May, 1992, when it was trading at 4. Now at 11, some investment pros insist the stock is just starting to gain upward momentum.

Totalizator is big in developing and managing national lottery systems in foreign countries. "The market for lotteries overseas is huge," says Charles LaLoggia, editor and publisher of *Special Situation Report*. Russia and China are now emerging as Totalizator's next major markets, he says.

Chairman Jim Walters told shareholders that Totalizator has begun shipping 1,000 lottery terminals to the Ji province of China. The company has also gotten a 17-year license to help operate and expand the Russian lottery system. Walters said the Russian lottery will have 1,000 Totalizator terminals by 1994; The company's goal is to install 40,000 units in Russia alone by 1996. The company has over 30,000 lottery and horse-race wagering terminals in 18 countries, including Australia, Britain, the Dominican Republic, Norway, Sweden, and Hong Kong—the latter being Totalizator's biggest market so far.

A Smith Barney Shearson portfolio manager believes the stock "will be 3 in two years." Berjaya Lottery Management, a gaming subsidiary of Berjaya Group Berhad located in Malaysia, apparently agrees: It raised its stake to 40% on Oct.7. Berjaya is bidding to get various licenses to operate lotteries in the Pacific Rim, especially in China, notes this pro.

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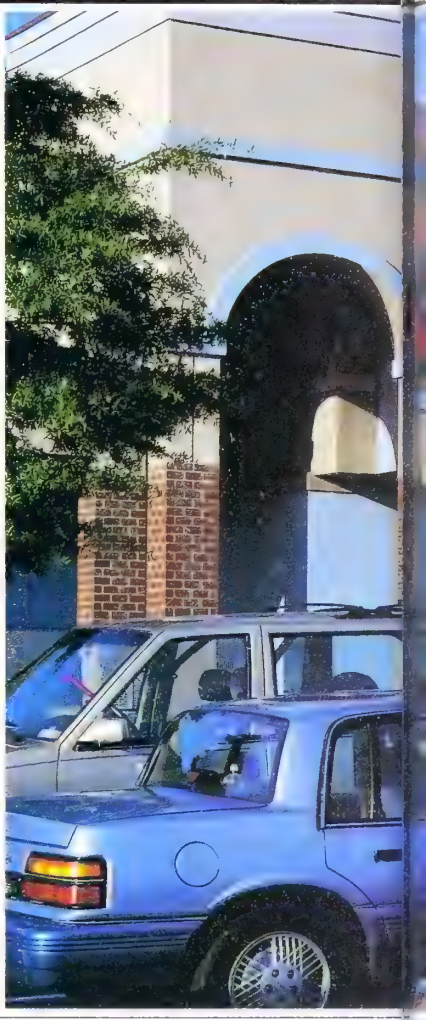
WHO'S MINDING THE GUN COUNTER?

A lawsuit spotlights firearm violations at Kmart



When one thinks of guns, one doesn't often think of Kmart Corp. But on Oct. 8, the nation's largest retailer was indisputably linked to the sale of firearms. A Florida jury ordered the company to pay Deborah Kitchen $12.5 million. Kitchen had sued Kmart for recklessly selling a .22-caliber rifle to her former boyfriend, who in 1987 shot her in the neck at point-blank range. She survived—but was rendered a quadriplegic for life.

The jury found that Kmart was negligent when it sold the rifle to Kitchen's heavily intoxicated ex, Thomas Knapp. Knapp was so drunk he could not legibly fill out the federal firearms form required by law of all gun purchasers. A Kmart clerk completed the task for him, trial evidence showed. Knapp is now serving a 40-year prison term.

The retailer, based in Troy, Mich., is appealing the verdict, the largest of its kind. Kmart argues that Knapp used a different rifle from the one he bought at Kmart to shoot Kitchen. In addition, the retailer contends that even if Knapp did use the Kmart gun, it could not have foreseen the tragic episode and therefore shouldn't be held liable for the incident.

POOR TRAINING? But Kitchen's case is more than an isolated incident. Court documents, records from the Bureau of Alcohol, Tobacco & Firearms, and interviews with many clerks and managers at stores nationwide reveal troubles at Kmart, which, along with Wal-Mart Stores Inc., is one of the nation's two largest sellers of guns and ammunition. The documents and interviews suggest that certain Kmart stores fail to adhere to federal and state firearms laws and inadequately train clerks about basic gun statutes and internal safety procedures.

Wal-Mart also has had its problems with gun sales. Interviews with employees by BUSINESS WEEK show discrepancies in their knowledge of internal procedures and government guidelines in the sale of firearms. The chain, based in Bentonville, Ark., declined to comment for this story or to respond to written questions submitted to its executives.

The sheer size of Kmart and Wal-Mart enables them to control a large portion of the consumer market. The National Sporting Goods Assn. estimates that in 1992, discount stores selling firearms, primarily Kmart and Wal-Mart, accounted for $81 million of the $488 million of annual sales of rifles and $77 million of the $433 million annual sales of shotguns. Discounters' market share in

DISCOUNTERS SELL $158 MILLION WORTH OF RIFLES AND SHOT

DEBORAH KITCHEN WON A $12.5 MILLION AWARD FROM KMART

shotguns jumped from 17.4% in 198 27.8% in 1992, while their market sh of rifles increased from 13.5% in 1 to 22.5% in 1992, the trade group ports. Both retailers declined to rele information on sales or volume of f arms and ammunition sold.

As for handguns, Wal-Mart proba leads all other competitors in the $ million market for such weapons. chain carries an array of pistols and volvers at an estimated 600 of its 1, stores. Kmart also sells handgu though not at any of its 2,400 stores sells them through its wholly own subsidiary, Sports Authority, a Ft. L derdale-based specialty store that off the weapons at most of its 66 outlet

Certainly Kmart and Wal-Mart m thousands of sales without incident. its part, Kmart says its written f arms policies are strict and sou "Kmart always has taken very seriou the responsibility that goes along w the selling of firearms," says Sha McGee Kahle, director of corporate c munications. "We require training in f arms-law procedures at the local, st and federal level." In a written respo

KMART AT OXON HILL, MD.: CITED BY THE FEDS

Tony Tanedo, sporting-goods manager at the Oxon Hill store, concedes that mishaps occur when employees fail to implement the retailer's internal policies. "The problem is not with the written policies, but with the people who are not following them," says Tanedo.

At a Kmart store in Southfield, Mich., a November, 1992, ATF inspection showed that in 25 instances over two years, clerks failed to require purchasers to complete firearms forms. It was at the Southfield store that a drunken 18-year-old bought deer slugs in 1984. The youth used them to settle a score with an acquaintance, permanently disabling him. The victim, Anthony Buczkowski, filed suit against Kmart and won a $1.5 million judgment. But in September, 1992, the Michigan Supreme Court reversed the verdict, ruling "intoxicated buyers" are not legally deemed unfit to buy ammunition.

LLY, AND SOME OF THEIR CLERKS HAVE HAD LITTLE TRAINING

uestions posed by BUSINESS WEEK, rt contends that in many instances, the victim of "civil actions brought ıdividuals seeking financial gain."

SPREAD PATTERN. According to doc-ıts obtained from the Bureau of Al-l, Tobacco & Firearms, however, rt stores have been repeatedly cited iolating firearms laws, including fail-to maintain current state licenses o fill out basic paperwork required ederal law. ATF records show that x stores inspected within the past years, all of which were previously ved in litigation, three have been for numerous firearms violations. her store, the one at which Knapp ht his shotgun, hasn't been inspect-nce 1980, according to ATF records. ıhle says that she is unable to ad-ATF reports citing violations at in-ual stores. But in general, she says Kmart is working closely with the o "make sure we're following the er procedures." Kahle adds that in l, Kmart revised its internal rms policies and procedures, and TF found them to be "improved." ngthy gaps between inspections are not surprising, given the state of the undermanned and overwhelmed ATF. The government permits nearly 300,000 individuals and stores to operate as gun dealers, granting licenses for as little as $10 a year. But federal firearms inspectors, who must make sure gun dealers obey the law, number fewer than 220. "There is no way we can possibly get around to all firearms dealers," says ATF spokeswoman Susan McCarron. "A lot of... stores are in rural areas, and we may not get to them for years."

Still, when the ATF does pay a visit, inspectors in some cases have turned up problems, says ATF spokesman Jack Killorin. The Kmart store in Oxon Hill, Md., for instance, was cited for "numerous record-keeping discrepancies," according to an April ATF report. The ATF found that the store didn't even possess a current, valid state firearms license. In addition, inspectors cited the store for failing to require customers to show sufficient identification before purchasing a firearm and to fill out federal firearms forms properly. The report also notes an ongoing ATF "legal enforcement" probe of the store.

The problems at Kmart and Wal-Mart may stem from the way firearms are sold. Many firearms clerks at Kmart and Wal-Mart are young—generally of high school or college age. According to interviews with 22 Kmart and Wal-Mart employees, their experience in handling or selling firearms varies widely from store to store. At some stores, training in how to detect drunk, drugged, or unstable customers is lacking. "One of the problems in a large chain store, as opposed to a specialty gun store, is turnover," says the ATF's Killorin.

A newly hired sporting-goods clerk at a Wal-Mart in Harrisonburg, Va., says she was put on the floor without any formal firearms training or instruction. The 18-year-old clerk told BUSINESS WEEK she would not feel comfortable selling a gun by herself and would seek out assistance from other staff. By contrast, the sporting-goods section at a Wal-Mart store in Slidell, La., is staffed by retired military officers with 20 years experience in handling firearms, according to interviews.

It was a perceived lack of training that convinced jurors in the Kitchen case of Kmart's liability. "It's pretty con-

cerning to see how easy it was to get this firearm," says jury foreman Sean Callahan. "The clerk's lack of training was really Kmart's downfall."

Kmart's Kahle explains that the store's training procedures are thorough and strict. She says employees are required to become familiar with training manuals and must attend in-store classes on the sale of firearms. They view videos showing simulated sales to explain what is required when customers purchase weapons. Kahle also notes that, as of this year, Kmart has increased the frequency of its training sessions and internal auditing of gun records. "Corporately, we're making sure procedures are followed, and we're going to intensify those efforts," she says.

LOOPHOLES. Certainly, mishaps and oversights at stores are only partly to blame in the escalation of gun-related violence. Loopholes in the law are also a problem. While federal law prohibits the sale of guns or ammunition to "unlawful users of any controlled substance," no law specifically bars the sale of weapons or ammunition to intoxicated customers. While federally licensed firearms dealers are prohibited from selling ammunition to convicted felons, retailers are not obliged to inquire about customers' criminal records. No law requires a store to train its staff on the particulars of selling firearms. And nothing on the books compels retailers to ask how purchasers intend to use their guns.

In 10 suits reviewed by BUSINESS WEEK against Kmart and Wal-Mart, the companies contended that they were careful to comply with current law. Moreover, they note that they cannot predict whether customers who purchase guns are dangerous. A number of judges have agreed with them, ruling in the companies' favor in six of the suits. Three were decided for the plaintiffs while another was settled out of court.

The case of Susan Drake illustrates the tangled nature of the laws governing the sale of firearms—and the difficulty of determining liability. In 1988, Drake, 19, went to a Wal-Mart store in Bartlesville, Okla., to buy a handgun. When a sales clerk asked her for identification, she showed a driver's license stamped with "UNDER 21" in large red letters, court records show. State and federal laws—as well as Wal-Mart's own policy—prohibit the sale of handguns to minors. But court records show the store clerk still sold Drake the weapon, which she used the following day to kill herself.

In a 1992 deposition in a case brought by Drake's family, a Wal-Mart regional compliance supervisor admitted that store employees in Oklahoma had not been instructed to watch for the UNDER 21 stamp, nor were they taught how to look for signals put out by people in distress. Wal-Mart attorneys argued that the store could not have foreseen the suicide. An Oklahoma state court judge agreed, but the case is on appeal. Meanwhile, the store has discontinued its sales of handguns.

Many store employees believe purchasing firearms from the chains is far better for consumers interested in acquiring and using guns legitimately than is buying from smaller dealers. "Kmart offers a better atmosphere for a 16-year-old who comes into the store with his father to buy his first hunting rifle," says Kmart Tampa store manager Mike Rogers. Richard Gardiner, legislative counsel for the National Rifle Assn., believes specialized knowledge is unnecessary in the sale of most weapons. "Selling a firearm is like selling anything else," he says. "As long as a person can read, it's relatively straightforward."

MOST MASS MERCHANDISERS, INCLUDING SEARS AND PENNEY'S, HAVE GOTTEN OUT OF THE GUN BUSINESS

Still, most other mass merchandisers have gotten out of the gun business. Since 1980, Sears Roebuck, J.C. Penney, Montgomery Ward, Target, and Ames Department Stores all have taken firearms off their shelves. They cite lack of profitability, concern over misuse of weapons, and the difficulties involved in keeping track of an ever-growing m of local, state, and federal firearms l for the decision.

In the late 1970s, Target stores continued the sale of hunting rifles. " see ourselves as a family store, and didn't see firearms as a fit," says spok woman Carolyn Brookter.

Kmart and Wal-Mart also posit themselves as wholesome, all-Ameri stores. But their marketing philoso on guns is radically different: They the weapons to draw male custom into their stores, industry experts Once there, these shoppers often other, highly profitable items, such hunting clothing and accessories. In tain stores, firearms can lead to a increase in hunting-gear sales, s Kmart's Rogers. "Their biggest valu that they're an attraction to a one-s hunting shop," he says. "We have to what we have to do to get busines the store."

DECOY. Some advocacy groups have cided to test the effectiveness of re ers' internal policies. Detroit's Save Sons & Daughters (SOSAD), a cri watch group, wanted to see whet Kmart would sell ammunition to un age customers. On New Year's Eve year, the group sent two boys, aged and 16, to a store in a Detroit subu "The clerk asked me for my I.D. Wh said I didn't have any, the clerk 'I'm not supposed to be doing this,' then he rang it up anyway," recalls rico Henley, who turned 17 last spr The message on Henley's receipt: "H a safe and happy New Year."

Kmart denies the incident, saying adult made the purchase for Henley his friend. But SOSAD member A Martin, who accompanied the boys the store says, "No way. I was stand 15 to 20 yards away from the cou during the entire transaction."

Given the growing popularity of arms, and an endless stream of gun lated violence, better control of t sale seems essential. But restrictions will face opposi from those who contend t most gun-buyers are law-a ing citizens. "If you're talk about sales of hundreds of thousand guns, 12 suits [against Kmart and W Mart] doesn't indicate there's a p lem," says the NRA's Gardiner. Yet so many dangerous weapons in hands of so many people, there ma no such thing as being too careful.

By Loren Berger in Washin

FIRED UP ABOUT GUNS

KMART AND WAL-MART USE WEAPONS SALES TO DRAW MALE CUSTOMERS INTO STORES, SAY INDUSTRY EXPERTS

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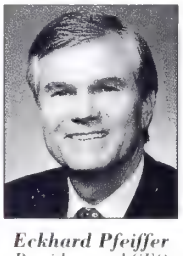

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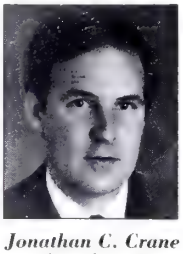

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INFORMATION MANAGEMENT

TAKING A LAPTOP ON A CALL

Technology is turning selling from a black art to a science

It's a jungle out there in the fast-changing telecommunications equipment market, and when Ascom Timeplex Inc. sends salespeople to call on customers, it arms them to the teeth with technology. Before a sales call, they fire up Apple PowerBook computers to review their prospects' previous contacts with Timeplex telemarketers. Dialing in to the company's worldwide data network, the PowerBook can retrieve the latest price lists, engineering and configuration notes, status reports on previous orders, and electronic mail from anywhere in the company. And when deals are struck, the laptops actually record each order, double-check them for errors, and send them electronically to Timeplex headquarters in Woodcliff Lake, N. J.

Timeplex' 200-plus salespeople may not know it, but they're at the forefront of a technology wave that's sweeping global business. As companies demand more work from fewer people, strive to differentiate commodity-like products, and keep hard-won customers, they're relying on computers to transform selling from a black art into a thoroughly engineered "business process."

It's about time. There are some 8 million people in the U. S. work force who are directly involved in sales, and it now costs $250 and up to send any one of them on a call. "The sales force is the single biggest marketing cost in major corporations," says Paula George Tompkins, chief executive of SoftAd Group, a Mill Valley (Calif.) designer of sales-automation systems. So, she says, there's a tremendous desire to improve the odds of a salesperson coming back with an order. As a result, sales-force automation tools and services have become a $1 billion market, on its way to $2.7 billion in 1997, says market researcher International Data Corp.

PAPER CHASE. Hype? Some, surely. This is sales, after all. But done correctly, investments in sales technology can pay off handsomely. Before "reengineering," sales reps at Timeplex would spend days getting quotes and proposals typed up and faxed to customers. "The salesperson was continually on the phone," says Peter Cammick, director of sales. Incoming orders triggered a paper chase that lasted as long as 10 days before manufacturing of a custom system could begin. Now, with laptop computers handling much of the process, price quotes are available in two hours, not two weeks. Orders have 25% fewer errors and take just four days to process.

Computers were long ago enlisted in the cause of sales, of course. Practically since the moment personal computers arrived, they have been helping reps manage contact lists and prepare personalized letters—a godsend for those Willy Lomans working out of their hotel rooms without a secretary. The first portable computers helped collect marketing intelligence from salespeople in the field and monitored each rep's activity. But many self-motivated reps, Cammick recalls, perceived a "leash" around their necks, not a tool that would help them make more money. Many millions were wasted on wrongheaded, superficial automation schemes.

ANATOMY OF THE SALES PROCESS

BEFORE

The sales process for industrial products—valves, say—usually involves many areas of a company that operate independently and have separate information systems. So, by fax and phone, here's how a salesperson proceeds:

1 Contacts sales administration for a rundown on the best leads.

2 Requests sales literature and other fresh material from marketing.

3 After the order, it's time to check with the pricing, credit, and manufacturing departments. There may be dozens of calls before the order is closed.

4 A fir… manuf… shippi… deliver…

WITH PORTABLES IN HAND, JOHN DEERE SALESMEN SPEND LESS TIME "MINING FOR DATA"

day, the entire sales process is be- ethought, as companies, having costs, focus on boosting revenues e key to better profitability. A ma- al is making the sales force, often sized itself, substantially more pro- ve by better managing opportunity. lation: Use information to help you your best shots, reduce the time it to close an order, increase the of successful closes, and, as Ken- L. Dulaney, consultant Gartner Inc.'s vice-president for mobile ess strategies, puts it, "get the you asked for."

rs Roger L. Pigg, manager of sales nation at Deere Power Systems, a division of John Deere Co. based in Waterloo, Iowa: "We're trying to empower the salesperson with the collective intelligence of the organization." Deere Power, a maker of diesel engines and other heavy equipment, learned from a study by Digital Equipment Corp. consultants that its salespeople were spending too much time "mining for data." Before going on a sales call, they might spend a full day logging into various computer systems—including a very unfriendly mainframe—and calling different departments to gather information. Then, after visiting the customer, they spent still more time filling in forms and updating computer files.

All this "caused gaps in the sales process and allowed competitors to beat us to the deal," Pigg recalls. But new technology is closing those gaps. Departments that used to keep information to themselves now share it across a network. Most information relating to a customer is available with a single call into the net, Pigg says, driving pre-call prep time down to a half day or less. The mainframe is still there, but it is hidden behind the "prettier" faces of modern PC software. And updating customer files is now handled automatically. Pigg declines to spell out the financial benefits, saying only that the project was "financially justified" within company guidelines.

Pharmaceutical companies are probably the most advanced in sales automation—they're now on their third generation of systems. And no wonder, given the hit-and-run tactics their sales reps, called detailers, use. Their mission is not to get orders signed but rather to sway doctors' preferences when writing prescriptions. Detailers may wait an hour and then get just five minutes of a harried physician's time in which to make their pitch, hand over literature and a box of sample pills, and collect the doctor's signature. A good rep gets to call on only about six doctors a day. Success is measured by an increase in the drug's sales at local pharmacies.

Many drug companies are using sophisticated modeling techniques to increase the effectiveness of those few brief calls. Dendrite International Inc. supplies some 18,000 drug reps with a service that analyzes pharmacy sales data to determine the best doctors to call on with a particular new product. This is especially useful, says John E. Bailye, Dendrite's founder and chief executive, when, as is typical, reps have to choose from perhaps 900 doctors in their territory to pitch three different new products. Software due out next year, he says, will analyze each rep's travel-related expenses—a major variable cost—and calculate their productivity more accurately than ever before.

The next most intensive users of sales automation are industries dealing in technically complicated products such as computer gear and financial services. Laptops in the field can help deliver lots of detailed information, fresh from the home office's data banks, and even help customers actually see what they're about to buy. Massachusetts Financial Services Co. has developed PC software to help small community banks sell its range of mutual funds. It lets a bank officer generate a personalized and colorful financial analysis for each prospective customer—an alluring come-on, it's hoped, for first-timer investors.

"VIRTUAL OFFICES." CWC Inc. in Mankato, Minn., developed something analogous for an unidentified truckmaker. Sales rep and customer sit together and, using CWC's graphics-based program, build a truck on the computer screen by picking from a menu of hardware options and paint jobs. The program shows just what the rig will look like, keeps a running tally of the price, and can analyze different financing plans, too.

Perkin-Elmer Corp., a maker of analytic instruments, is going even further. It's shutting down sales facilities across the country, plowing the savings into research and development, and using a network of powerful color laptop computers to give its 200-plus North American sales reps "virtual offices." Working out of their homes, they now have access to more detailed information than ever before. For selling a line of infrared instruments, laptops help visually configure products that have some 10,000 possible variations. "It's really tough to keep up with what widgets go with which," says Michael H. Elliott, manager of sales and marketing systems. Computers, he says, can help turn sales reps into consultants. Fine—as long as the machines don't start asking for a cut of the commissions.

By John W. Verity in New York

AFTER

A powerful laptop computer dials into the corporate network to give sales rep access to most vital information. It can prepare memos, send faxes, and communicate via electronic mail. It can show customized marketing presentations, too. A single call back to the headquarters network can tap into all relevant department data bases. The laptop can validate configurations of complex products, too.

DATA: BUSINESS WEEK

SOFTWARE

BREAKING DOWN THE WALLS BETWEEN PROGRAMS

Once again, Microsoft is out front in "suites"

On Oct. 19, Microsoft Senior Vice-President Frank M. "Pete" Higgins is going to try to make software disappear. It's not a new magic act but a new philosophy in software. Microsoft Corp. plans to revamp its entire applications-program line with a new version of Microsoft Office, a software "suite" that includes a word processor, spreadsheet, electronic mail, and data-base packages—all for one low price. The separate programs, to be released over the next 12 months, are designed to work so well together that the individual packages will simply fade away. "We're moving toward a world in which the applications are pretty much invisible," says Higgins.


HIGGINS: MOVING TOWARD A WORLD OF INVISIBLE APPLICATIONS

Software isn't the only thing that might start to vanish. Some of Microsoft's rivals in the applications business also could end up on the endangered species list. That's because Microsoft's technique for breaking down the barriers between programs, a communications technology called Object Linking & Embedding (OLE), will appear in Microsoft's suite long before OLE surfaces in programs from other top suppliers.

Analysts believe that OLE will now become an industry standard for linking applications. Programs written to the standard will, in theory, act virtually as one. With Microsoft Office, for example, a spreadsheet table can be moved into a word processing document as easily as it can be moved around the screen.

EARLY START. That's undoubtedly a useful thing. "Customers used to buy software piecemeal," notes Microsoft's Higgins. "Now they want coherence." For the moment, they'll be able to get it only from Microsoft. That gives rivals an uneasy feeling of déjà vu: Because it developed Windows, Microsoft got an early start in writing applications programs for the graphical system. It has 42% of the $2.1 billion market, and its closest rival, Lotus Development Corp., has less than 15%. With OLE, rivals say, Microsoft will once again have an unfair head start. "Just like Windows, we're all on version 1, and they're on version 2," says Fred M. Gibbons, chairman of Software Publishing Corp.

Indeed, Microsoft will start shipping its first programs with OLE 2 this fall, at least six months before major rivals. But Microsoft Chairman William H. Gates III insists it's not just because his company invented the technology. As with Windows, Microsoft urged rivals to get on board with the first release of OLE in 1990, but they were slow. "They can say we're not nice guys, but that's another issue," says Gates.

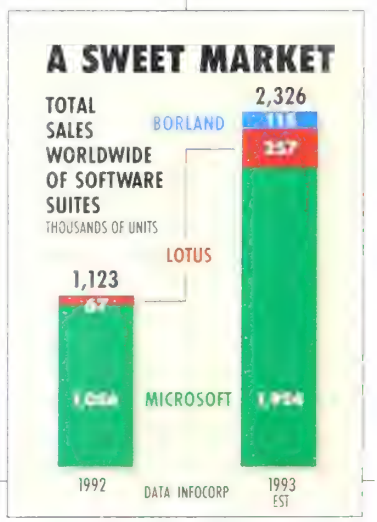
OLE 2 is also Microsoft's first big step toward so-called object-oriented programming, a technique of building pages out of small modules. With OLE it will be possible to add new features by adding new modules. That could create a whole new business, predicts Bernd K. Harzog, a program director at Gartner Group Inc. He figures the number of OLE-compatible applications will rise from two this year (both from Microsoft) to hundreds next year and thousands within a few years.

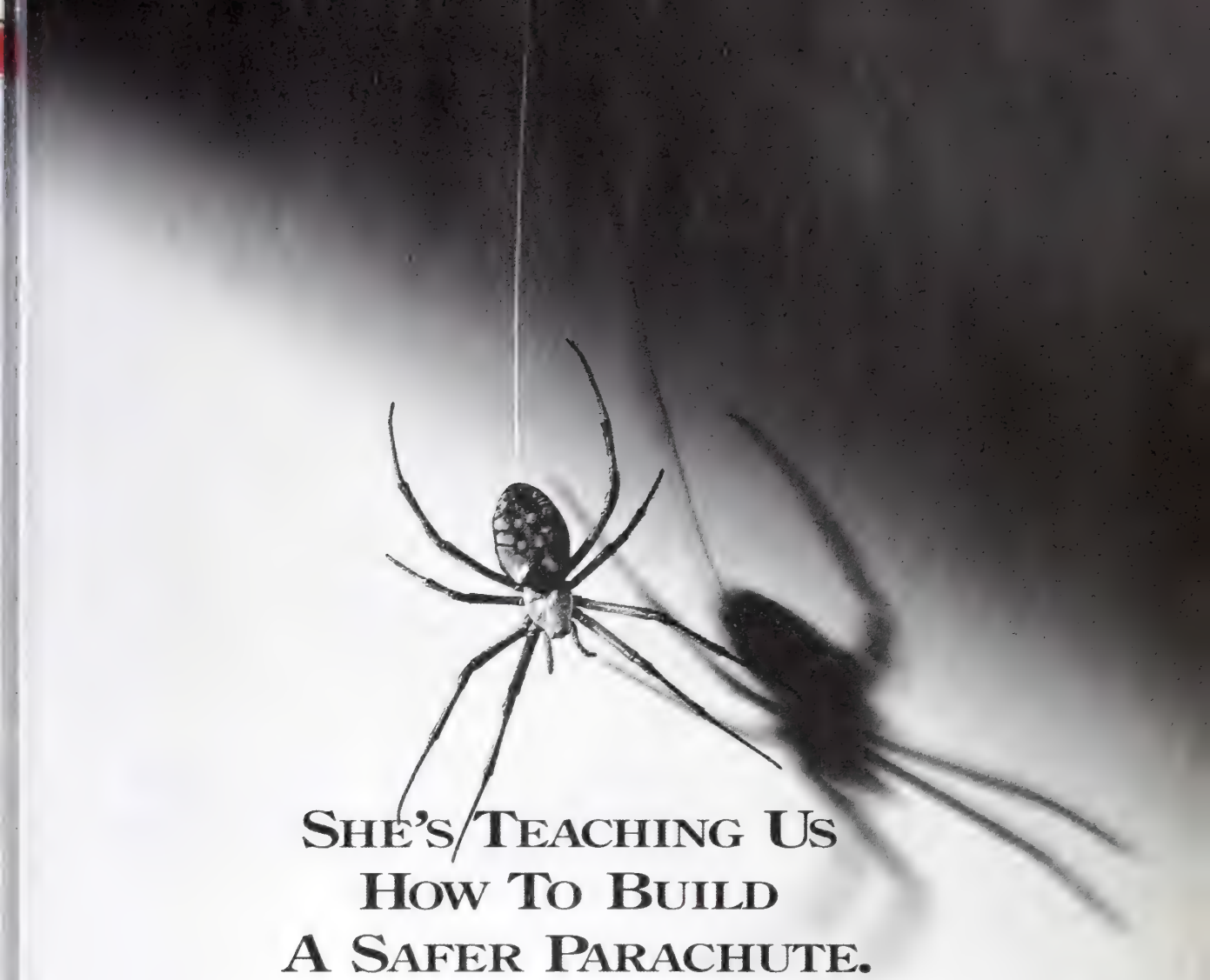
POLYESTER SUITS. Demand for such niche programs will create lots of opportunities, says Harzog. But the market for free-standing applications from companies that can't match Microsoft in offering suites now looks dimmer. Suites are already soaring—Microsoft is selling 60% of its applications in such bundles (chart)—and OLE 2 is likely to fuel additional sales. Lotus, which is about 18 months behind Microsoft in adopting OLE 2, is likely to have a winner. Some 25% of its 1994 sales will be through suites this year.

Other players may just be the leftovers. Borland International Inc. and WordPerfect Corp. are selling each other's products in a suite while adopting OLE 2, but they have to prove they can integrate their products. Software Publishing's Gibbons hopes customers will choose his Harvard Graphics program because, he says, it's better than Power Point, its counterpart in Microsoft's suite. "When you want to present something important, you don't wear a polyester suit," he snipes.

Polyester or not, companies such as Software Publishing have already felt the power of Microsoft's suites. Gibbons has blamed slow sales and poor earnings to the impact of Power Point arriving "free" on so many PCs. That doesn't mean suites will take over. Customers still buy the best product for a task. "No one builds everything right," says Mary Hennessy, director of global telecommunications for Reader's Digest Association Inc. But as the lines between software packages blur, stand-alone programs could become a memory.

By Richard Brandt in Redmond, Wash.





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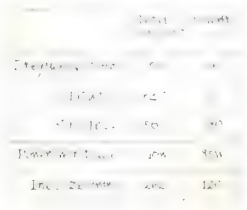

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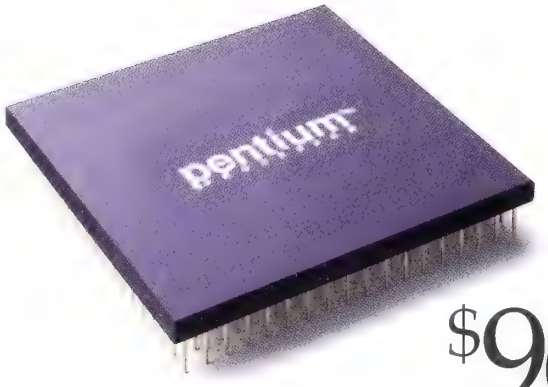

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BECAUSE IT'S NOT BUSINESS AS USUAL.

YELLOW

126D

BY PAUL M. ENG

ALL NIGHT TH THE COMPUTER NERDS

ho'd watch a 24-hour cable-television network devoted entirely to computers? A group of entrepreneurs figures there are some 10 million techno-enthusiasts out there just might. And with 500 channels of interactive TV on orizon, they figure now's the right time to launch an all-uter channel. Called C/Net, it is expected to begin in the quarter of next year as a series of programs on the business news and talk-show channel. Later, if all goes the programs could show up on a dedicated station.

nded in part by advertising, the New York-based C/Net eature everything from panel discussions on new technol- to industry news and profiles of computer celebrities. itually, viewers may even be able to shop for hardware software and participate in electronic polls with a flick of remote controls.

. YOU NEED TO KNOW OUT NAFTA IS ON A CD-ROM

ondering what Ross Perot is so riled up about? Young Minds Inc., a Redlands (Calif.) software company, has shed the 2,000-page North American Free Trade Agree- (NAFTA) on a CD-ROM for personal computers. It lets search the proposed pact by typing in key words or gs of text, such as "environmental impact." Portions of the can also be cut, copied, and placed in other documents, as reports on how NAFTA will affect a company.

first, Young Minds intended to sell the disk to lobbyists, usinesses, and other members of the power elite for t $300. But that was before all the recent interest in A—and Perot's charges that the limited quantities of the ed document made available by the Government Printing e were part of a conspiracy to hide the truth from the le. So, Young Minds President John Sands has decided to the disk at the more populist price of $99.

GLASNOST COMES TO BIG BLUE

BM really changing? A breeze through its newly made- er internal magazine, called *Think*, at least shows a cer- *glasnost* in the air. The employee magazine, back from a n-month hiatus, has been transformed from a relentlessly ful glossy publication into a more hard-hitting and cheap- produce broadsheet. One article, entitled "How Arro- Are We?," explores what new IBM CEO Lou Gerstner calls nstitutional problem" among employees.

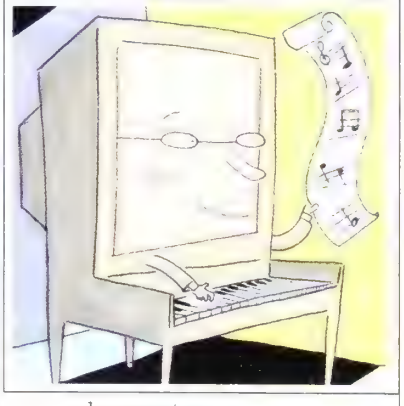
t the most telling part of *Think* is located on the back In a list of what's hot and what's not, the magazine says rigid dress code, symbolized by the starched white shirt, is out, replaced by a more casual striped shirt. Also considered "out" are bureaucracy, "blind autonomy" (defined as "the opposite of teamwork"), and "fancy foils," which are the overhead transparencies long used by executives in presentations. Also considered "in" are direct marketing and speeding products to market. During its hiatus, *Think*'s editors had to rethink their own business. With IBM's downsizing, the magazine will have lost over 75,000 readers by the end of 1994.

HOME RUNS FOR HOME-ED PROGRAMS

The personal computer software industry has always been dominated by business programs such as spreadsheets and word-processing packages. But new data from the Software Publishers Assn., a Washington trade group, show that a surprising shift is under way: Home-education software was the fastest growing category, up 55%, to $35 million in the second quarter of 1993. And several traditional categories, although much larger in volume, actually declined. Spreadsheet sales dropped 8%, to $211 million, during the same period.

Driving this demand are, of course, kids, who tend to be even more knowledgeable and enthusiastic about computers than their parents. The fact that more and more home PCs are equipped with CD-ROM drives and state-of-the-art graphics is also expanding the market for educational programs. Topping the list, for both the PC and Macintosh, is Broderbund Software Inc.'s geography game, Where in the World Is Carmen Sandiego, according to PC Data in Reston, Va. And the fastest riser on the home-education charts is Dinosaur Adventure, a program from Knowledge Adventure Inc. that teaches kids about brontosauruses, raptors, and the like.

THIS SOFTWARE KNOWS THE SCORE



One of the hardest things to do is get music into a PC. Usually, musicians need to add expensive Musical Instrument Digital Interface (MIDI) hardware and software in order to connect an electronic keyboard or other instruments to the PC and then manually key in each note. But now, creating musical data can be as easy as feeding printed musical scores to personal computers.

Musitek Corp. in Ojai, Calif., recently released its first software product, called Midiscan for Windows. The $379 program enables any IBM-compatible PC running Microsoft Corp.'s Windows to read sheet music. The software functions much the same as optical character recognition (OCR) software, which captures printed text for use in word processing. In fact, Midiscan works with the same scanners commonly used for OCR. The software can recognize all of the standard music notations—staff lines, note pitches, key and time signatures, for example—with 98% accuracy and saves them as MIDI data. Later, the same data can be manipulated with so-called sequencing programs for playback on MIDI-compatible electronic instruments and PC soundboards.

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THE BOOMERS TAKE OVER IN JAPAN

They're confident, powerful—and armed with an ambitious agenda for change

Japan's generation gap doesn't get any clearer than this: At the sushi bar of his tiny Tokyo restaurant, Miyoji Odagiri, 64, vividly recalls the humiliating defeat by the U. S., which then saved him from starvation during the occupation. "I love America," says Odagiri, who trained to be a kamikaze pilot. "Just think how terrible it would be if Japan had won."

But a short distance away, at the Ministry of International Trade & Industry, 45-year-old Kazumasa Kusaka, an energy official who until recently directed MITI's division of international economic affairs, sees no need for such deference to a country that defeated Japan before he was born. Says Kusaka of his own generation: "We are more willing to accept conflict with the U. S. for the sake of better relations long term."

It may come as a surprise to Westerners, but there is no such thing as a Japan Inc. that speaks with one voice. Japan's postwar baby boomers—the *dankai sedai* of nearly 20 million men and women in their 40s—are emerging with a distinctive new message. True, government and big business are still dominated by men in their 50s, 60s, and even 70s. But they are ceding power to this new cohort of energetic men and women.

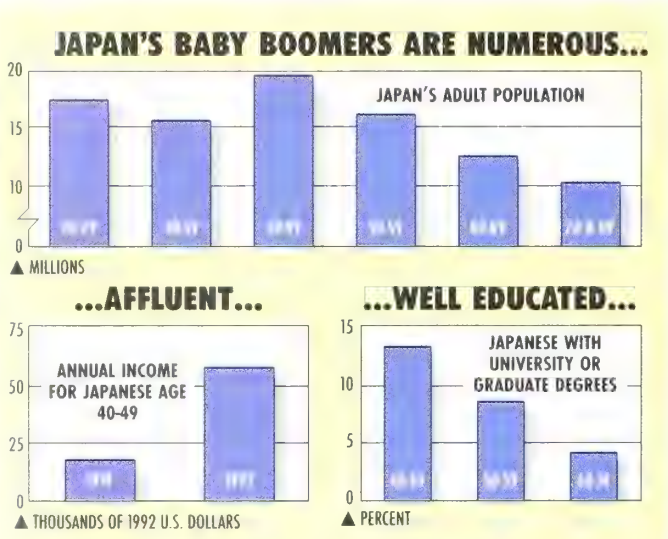
OLD VALUES. The Japanese born after the war are eager to clean up the murky politics, untangle the byzantine bureaucracy, and deregulate the economy. They helped Morihiro Hosokawa, 55, snatch the Prime Minister's chair from 74-year-old Kiichi Miyazawa and now are set on dragging Japan into a position of world leadership. "Generation is the largest single element in the changing Japanese structure," says Yukio Okamoto, a former senior Foreign Ministry official who is now a consultant.

This is not to say Japan is adopting wholesale the values prevalent in the West, as many scholars have argued it would—and as many Western policymakers earnestly wish. In fact, as more Japanese are educated abroad and learn to speak English, they are using their skills to articulate a Japanese perspective with which Westerners may disagree. Moreover, Japanese social structures remain firmly in place. According to sociologist Chie Nakane, the process of slow, cooperative decision-making she described in her seminal 1970 book, *Japanese Society*, still operates today.

What's really happening, these experts argue, is that this generation is absorbing fresh ideas and skills from the outside—without eroding their core J anese character. "The trick is balanc Western ideas with Japanese valu says Hirotaka Takeuchi, a former H vard business school professor now Hitotsubashi University. That's a t earlier generations managed to pull during the Meiji Restoration of 18 when the U. S. Navy pried Japan of 250 years of isolation, and after W War II, when Japan submit to U. S. occupation to rebu

FRIENDS OF BILL. Who are Japanese now waiting to sume command? Despit readiness to take on the U many are so inspired by vigor of America's own b boomer leadership that t like to give their age in r tion to President Clinto birthday (Aug. 19, 1946). T may remember the chew gum handed out by Ameri GIs, but they recall nothing the war. They challenged thority in the late '60s were the first generation study abroad. Today, their erage household income three times that of Japan who were in their 40s a g eration ago (chart).

In contrast to older J anese, some of their most complished members women. Compared with th elders, the *dankai sedai* independent and opiniona and possess a high degree self-confidence—even if t have been battered some Japan's current economic slump. T are eager to test new ideas in busin and a small minority is even willing speak out on such formerly ignored s jects as the environment. Tsutomu mizu, a 39-year-old lawyer, for exam is battling for the rights of people w AIDS. Speaking about the boomers, Y shi Matsumoto, a sociologist at Nag University, says: "They are capable leading Japan in new directions."



...AND MORE SKEPTICAL OF THE U.S.

ASSESSMENT OF RELATIONS BETWEEN JAPAN AND THE U.S.*

AGE	GOOD	SOME PROBLEMS BUT FUNDAMENTALLY GOOD	MANY PROBLEMS AND WORSENING	DANGEROUS
40-49	11.2%	52.5%	27.7%	2.7%
70+	21.7	42.9	14.8	2.0

* SOME RESPONDENTS WERE UNDECIDED OR HAD NO OPINION

DATA: MANAGEMENT & COORDINATION AGENCY, POLL CONDUCTED BY PRIME MINISTER'S OFFICE, 1992

me of this desire for change stems a generational dissatisfaction with rnment. In a survey by the Prime ster's office last year, almost 76% panese aged 40 to 44 felt negative- out the government, vs. only 62% of nese over 60. This summer, the ers' resentment fueled the politi- evolt against Miyazawa. It was the *te*—a group of Diet members in 40s—who demanded that the Liber- mocratic Party (LDP) ditch its back- meeting of party stalwarts and let all members vote for the next party president.

While Hosokawa, the beneficiary of that upheaval, is older than the boomers, he counts among his confidants Yuriko Koike, 41, a former broadcaster who won her seat in the Diet as a member of the Japan New Party (JNP), and new Diet members Seishu Makino, 48, Koudou Kohata, 46, and Sakihito Ozawa, 39, who also chairs the JNP policy committee. Outside his coalition, within the old-line LDP, younger members such as Kenji Kosaka, 47, are pushing an agenda for more political reform and a larger role for Japan in global affairs. "Their day is not quite here, but postwar leaders are a force to be dealt with," says Japan scholar Robert M. Orr Jr., an adjunct professor at Temple University. "Generational change is on fast forward."

A big part of the change demanded will concern the way Japanese benefit from their affluence. The older generation was much more willing to live in tiny spaces and forgo consumption. But

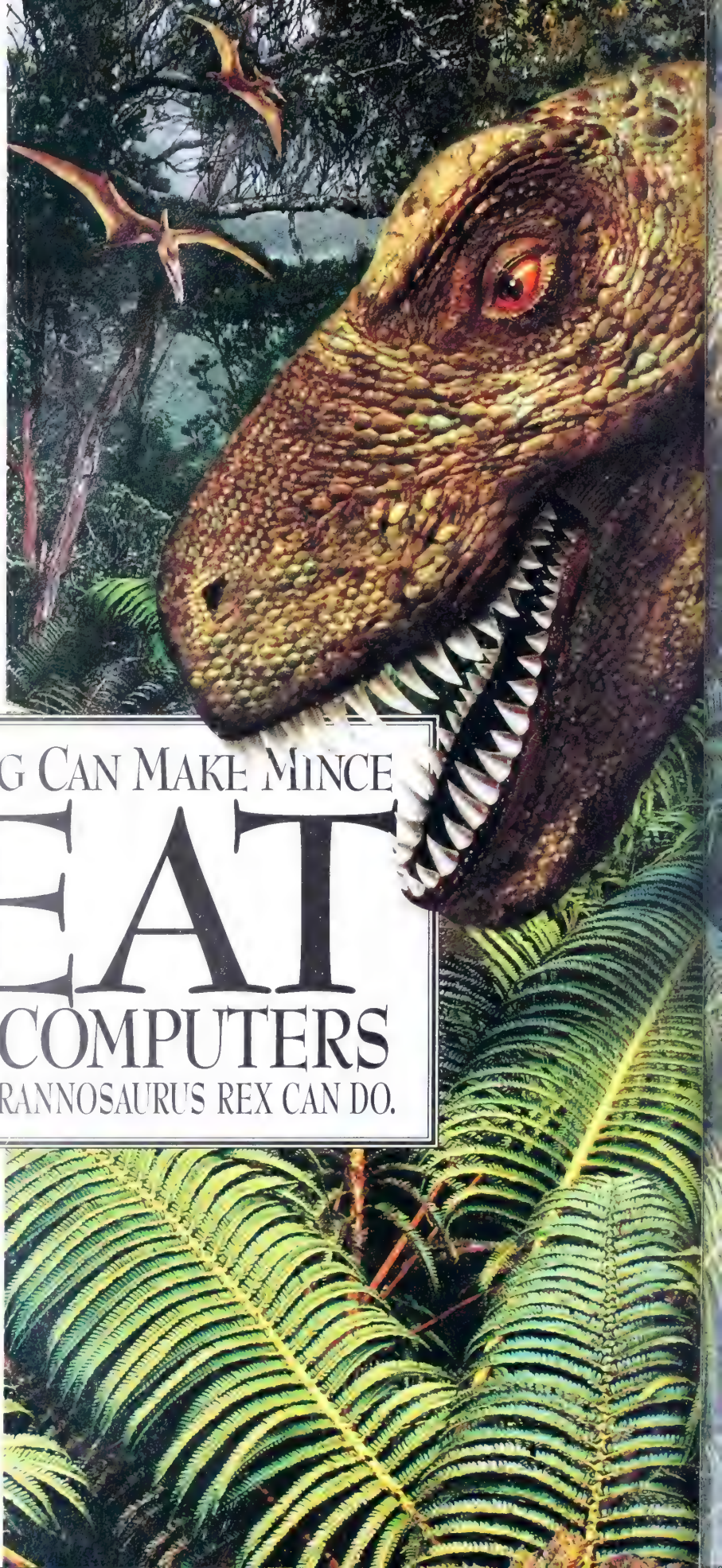
YASUYO KIKUTA

hen Yasuyo Kikuta wanted to study computer programming at Ochanomi- Women's University, her father tried to her out of it. When she graduated in 4, Fujitsu Ltd. was the only one of 10 tronics companies to acknowledge her ication. Once hired, she was forbidden all on customers. And when she mar- two years later, only her boss saved rom peer pressure to quit.

low 44, Kikuta strikes more fear in competitors than colleagues. As general manager of Fujitsu's systems-development engineering division, she heads research on software applications for networking systems, artificial intelligence, and machine translation. Her story is revealing because many experts have argued that younger Japanese, particularly women, would erode Japan's competitive edge as they refused to work as hard as their elders. But far from hurting Fujitsu, Kikuta has proved a secret weapon.

Kikuta's talents first became clear in 1984. Assigned to solve problems for engineers who dealt with customers, she got bored answering the same questions. "You don't need special brains to transmit written information over the phone," she says. "I wanted to make the computer do it instead." So she invented an artificial-intelligence system to handle such inquiries.

Kikuta's rise at Fujitsu and her husband's career have left no time for children. That's one reason she wants to create a networking system—so parents can work part of their week at home. But in her case, she accepts the trade-off to apply her talents for Fujitsu.



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MASATO MIZUNO

As a small boy just after the war, Masato Mizuno idolized the American soldiers tearing around Osaka in their jeeps. Later, he desperately wanted to study in the U.S. After graduating in economics from Kohnan University in 1966, he started over at Carthage College in Wisconsin.

Now, as third-generation president of the $1.8 billion sporting-goods company Mizuno Corp., he's using his experience in straddling two cultures. The surge of Japan's postwa economy has vanished, making overseas op erations more critical. The baby boomer who will inherit all this are rising fastest i Japan's family-controlled companies. Like M zuno, they studied abroad, yet they know th Japanese system. "I'm trying to mix the bes of both worlds," Mizuno says.

The U.S. influence means logic and sense of individual responsibility. When Mizu no, now 50, returned to Japan in 1970 as warehouse clerk, he was horrified at the illog ical coding practices. He designed a systen that later spread through the company. Nov he is testing a personnel-evaluation technique that puts more weight on merit, while keepin elements of Japan's seniority system.

Yet he does not embrace Western way blindly. Personal relationships remain an inte gral part of business. And he wants Japan t negotiate aggressively with the U.S. "Japa should speak out more," he says.

Whereas his father navigated the pos war boom and built his company into Japan' largest sporting-goods manufacturer, Mizu no says, "my role is to steer in steadier time and to internationalize." With a new genera tion climbing the ranks, more boardroom are coming to the same conclusion.

now, Hosokawa's boomer-dominated coalition wants to improve the quality of Japanese life. Some items on the agenda: cutting income taxes to give Japanese more to spend on themselves and introducing product-liability laws.

But Westerners shouldn't think this emerging pattern of change will make Japan a pushover in trade spats. While Japanese in their 40s still tend to admire the U. S., they see far less reason than their elders did to capitulate to Washington. The Japanese boomers involved in trade negotiations, for example, don't want to buy targeted numbers of U. S. goods. Japanese in their 30s are even less sympathetic. "This is not the America I learned to respect," says one disgusted 32-year-old bureaucrat with an Ivy League MBA.

RETHINKING RAISES. Such assertiveness could propel Japan into a new stance in diplomacy. The insistence of such boomer politicians as Kosaka sent Japanese volunteers into the U. N. Cambodia peacekeeping force last spring. Unlike the generation that vividly remembers World War II, boomers aren't inhibited about discussing a broader role for Japan. The 44-year-old television commentator Yoichi Masuzoe, for example, wants Japan to obtain a seat on the U. N. Security Council, but only after it changes its constitution to allow for international security activities (page 133).

Boomers are bringing a new perspective to corporations as well. For decades, Japan's elders kept their heads down and cranked out products, aiming for market share and confident of continuous expansion. But a growing number of Japanese believe that the old model can't last forever, and like sporting-goods executive Masato Mizuno (box), they a trying to breathe fresh ideas and vitali into Japanese companies.

At beverage company Suntory Lt for example, 47-year-old Executive Vi President Nobutada Saji draws on eight years studying and working in t U. S. to help his cousin, the preside run the company. Because profits a neither as predictable nor as copious

YURIKO KOIKE

Japanese women in kimonos evoke images of the meek and mild. Yuriko Koike is anything but. She wore traditional garb last February in Switzerland to accept a World Economic Forum award as one of the top 200 young leaders. "People were astonished to see a Japanese woman dressed in kimono with aggressive political views," she says. "I was enjoying that gap."

As a key member of the Japan New Party, founded by Morihiro Hosokawa in May, 1992, Koike, 41, aims to revamp Japan's political system. A veteran TV journalist, Koike entered politics in July, 1992, winning a seat in the upper house. Now in the lower house, she is parliamentary Vice-Minister for the Management & Coordination Agency which handles government administration.

The JNP's policies, still at the conservative end of the spectrum, are often not radicall different from those of the LDP. But the JN represents a generational shift. "The old pa ty is run by old people, like an old Japanes company," she says. "They treat women lik hostesses." She is keen on deregulation "We want to make a new system to catch u with and lead reality."

Koike, who earned a degree in Arabic a American University in Cairo, credits he mother, frustrated by the limitations of he own generation, with inspiring her to de vote her life to politics. Says Koike: "I want t be a role model for the new female genera tion." With or without the kimono.

YOICHI MASUZOE

nce a month, 30 journalists, bureaucrats, scholars, and executives meet in Tokyo to part in a study group. Their mission: oing Japan's future. All members must be r 50. "These are the people about to real power in Japan," explains Chair- Yoichi Masuzoe, 44.

e ought to know. As one of Japan's talked-about TV commentators, Masu- nas a huge influence on public opinion. o-hosts two weekly news shows and ap- s regularly on three others, where he ılates the frustrations of his generation. "I to change my country so that it can full-fledged member of international so- " he says excitedly.

do that, he calls on Japan to design a gn policy of its own, rather than one sting of knee-jerk reactions to U.S. de- ls. He wants Japan to take a seat on the Security Council but says: "I don't think qualified yet." First, Japan must amend nstitution so that it can send troops on ekeeping operations overseas.

ter graduating in law and politics from Iniversity of Tokyo, Masuzoe spent five as a research fellow at universities in and Geneva and a decade as a schol- the University of Tokyo. He is fluent in Japanese, English, and French and has published 10 books. His office is filled with photos of himself with favorite interviewees, from Margaret Thatcher to Mel Gibson.

Analysts expect Masuzoe to move into politics. He argues that the current coalition government will prove so weak that an election will be called next year. He plans to launch his own, generally conservative party then and has several candidates lined up. "I'm not looking for a revolution," he says. "Our main goal is policy change." But it won't be change that makes Japan more malleable. Instead, Masuzoe wants his country to strike a more assertive and independent course in the world.

nce were, such companies as Sun- Honda Motor, and Sanyo Electric evaluating Japan's seniority sys- We have to be less emotional and ogical—like in the U. S.," says Saji, s setting up a system to deter- promotions regardless of age.

hinking business may be relatively ompared with the job of enlarging n's role in society. Not until well after the war did anyone seriously begin to question Japan's chauvinism. As a result, some 5% of women now in their 40s have university degrees—low by U. S. standards but impressive compared with the 0.9% of women in their 60s who have degrees. Some boomer women, such as 44-year-old Fujitsu Ltd. engineer Yasuyo Kikuta (page 129), have made their way up the corporate ladder.

Ironically, because of the demographic bulge, most college-educated women were squeezed out of the work force in their late 20s and 30s. As a result, "Japan's baby boomer women think radically but behave traditionally," says Mariko Sugahara, 46, the first woman bureaucrat to join the Prime Minister's office. Those boomer women who do succeed in the workplace have done little to win extra services, such as day care or maternity leave, from employers.

GLASS CEILING. Changing sexual stereotypes is such a daunting task that the likes of Kikuta and Sugahara mainly are role models for women in their 30s, such as Satsuki Katayama. A deputy director in the international finance bureau of that male bastion, the Finance Ministry, Katayama now works on development aid and was the first to break a glass ceiling for women by earning a two-year job rotation in a local tax office.

So far at least, the impact of women boomers has not been to soften dramatically Japan's competitive edge, as some Japan-watchers predicted. Overall, they've been obliged to work just as hard as their male colleagues and have often chosen to give up families so that they can concentrate on their work.

Women such as Fujitsu's Kikuta have actually helped spruce up their company's product line by coming up with innovative ideas. And in politics, Japanese women in their 40s are playing a key role in revitalizing the political system so that it focuses better on meeting people's needs. Besides Koike, newly elected women members of the Diet include Yuriko Takeyama, 46, of the JNP, and Makiko Tanaka, 49, of the LDP.

What male and female boomers share is the goal of a "new Japan." Shrugging off the inferiority complex that gripped their elders, the *dankai sedai* are laying the groundwork for a revitalized political system and a new posture in the world. They are lending fresh thinking and energy to corporate Japan and adjusting the balance between men and women. If they accomplish even a fraction of their agenda, the world will soon face a more sophisticated and self-assured Japan.

By Karen Lowry Miller, with Hiromi Uchida, in Tokyo

MANUFACTURING

IMPROVING THE SOUL OF AN OLD MACHINE

An Indiana auto-parts plant tries to become a world-beater

Teamwork
Reporter Treece (second from right) helps out in the quest for efficiency

Across industrial America, reengineering teams are trying to bring factories up to world-class standards. James B. Treece, who covers manufacturing for BUSINESS WEEK, *joined one effort at an Indiana plant. Here's his report:*

It's hot, dirty, and hectic inside the Freudenberg-NOK auto-parts factory in Ligonier, Ind. On the engine-mount line, workers lean over searing molds, loading and unloading raw materials and finished parts. Laboring three shifts a day, they produce 123,000 parts a month for Ford Motor Co.'s Aerostar vans and Ranger pickup trucks. Like many U.S. factories, however, this 8-year-old plant has plenty of room for improvement. On this late summer day, our 12-member team has been given ambitious goals: boost capacity by 20%, raise productivity 15%, and reduce work-in-process by 50%.

Obviously, we can't produce plantwide gains that dramatic in the three days we have to come up with suggestions. Instead, our group of plant workers, managers, and outsiders—including one reporter—is one of a series of quick-hit teams trying for improvements in one section of the plant. Between Monday and Thursday morning, we'll scour the engine-mount line, proposing and testing changes to reach our goals. If our ideas work, they'll be spread to the rest of the factory. Then, other teams will move in, and the process will begin again. In the next year alone, 40 such teams will move through this sprawling factory on the edge of a cornfield in the Amish countryside of north central Indiana.

SWARMS. These are the front lines in the battle for supremacy in world manufacturing. Particularly in the auto and electronics industries, lean-manufacturing teams are swarming over America's factories. Their aim is to boost productivity by bringing what the Japanese call *kaizen*—continuous improvement—to the shop floor. To do that, the teams are introducing a blizzard of small, inexpensive changes that should make U.S. plants more competitive. "What we are doing today is what any company have to do to survive a decade f now," says Joseph C. Day, chief ex tive of Freudenberg-NOK, a $420 mi German-Japanese joint venture wit U.S. plants that make rubber seals bration dampers, and engine mounts securing the motor to a car's frame

Although his industry isn't known manufacturing innovations, Day, 48, embraced *kaizen*. In 1992, he began patching teams into his plants to b them up to speed after seeing how lean production wo in the company's factory in Clevel Ga. He believes groups—dubbed GRO TH teams, for Get Of Waste Thro Team Harmony—help the company more than double sales 2000, to $1 billi without adding pe or factory space. T also provide a wa respond to dema from customers, s as Ford and Chry for price cuts of 6% more a year. The te already have b through several op tions in our plant. has smoothed the by promising that one will be laid off result of their sug tions. Otherwise, he ures, good ideas wil hard to find.

It has been less t three months, in f since our engine-m line last went thro the *kaizen* proc Back then, a GROW team combined w had been a two-person press-and-p operation into cells of a single wo each. Workers were promised that a low-up group would try to ease t heavier workload. That's us, says t leader Jerry Decker, a plant qua manager. We're also looking for w to meet today's orders using five pr es instead of the current six. That free one for a new engine-mount o the plant expects to win next spri

After a morning training session, grab our stopwatches and white coats emblazoned with the GROWTTH and head onto the floor. Towering ab us are five three-story-tall pres which melt 100-foot-long strips of nat rubber, inject part of the 235F mo

MALCOLM FORBES LEARNED TO RIDE A MOTORCYCLE AT 50.

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mass into a series of 4-inch-by-4-inch molds, and quickly cure it. At each press, a worker buffs excess rubber off the latest batch of steaming engine mounts with a spinning wheel of metal bristles that resembles a power sander, then does two other operations. As we watch, the long strip of rubber being fed into the press breaks. As we time every step, the machine operator sprints up a short stepladder, reloads the rubber, hustles through several other tasks, then waits for the press to open again.

DIRTY WORK. When we reconvene in our conference room, we agree that the workers, who finish their tasks in about 13 minutes, are not the problem. The bottleneck is the 18-minute machine cycle. That can be improved without overtaxing the workers, Decker believes. So he plans an experiment. Can we shorten the cure time from 14 minutes to 12 minutes without affecting quality? By the next day he has his answer: Yes.

At 5 a.m. on Tuesday, headquarters-based salesman Rich Hamed and I arrive at the plant to ask the third-shift crew about their jobs. Byron Burns gives us an earful. He has been up and down the short ladder 10 times since 1 a.m. to refeed broken rubber strips. He shows us his left arm, blackened from overspray at the paint booth, then pulls up his blue work shirt to reveal tiny black dots covering his belly. Rubber ripped off by the buffer flies through his shirt and into his pores. "I stand in the shower," he says, "and pop these out." Workers long ago removed a safety shield, after it got so blackened they couldn't see through it.

At breakfast, Decker parcels out eight key issues to subteams. One will focus on loading and unloading the press. I volunteer for a team that will ease the workers' duties and deal with Burns's woes. My group includes line worker Shirley Voirol, Rick Goslee from maintenance, and Forrest Knox, an engine-mount buyer from Chrysler. We head back into the plant to confront the buffer. The spinning metal brushes are a hazard, and workers risk carpal-tunnel syndrome from forcing the mounts against them with their wrists at an angle. The previous *kaizen* team had a prototype of a semi-automated buffer built but never got it to work right. We start to tinker with it, a task that will consume the next two days, and compile a list of nine suggestions—such as one for eliminating the workers' long stretch down into four-foot-tall parts bins.

As the teams go over their lists, Decker tallies his computations. He figures the plant already could meet demand with just five presses, even without working Saturdays. But that assumes no unscheduled downtime. No presses idled, as one is today, waiting for replacement parts. No 45-second holdups when the rubber breaks. No loss of a minute or two when a worker, busy elsewhere, doesn't realize the press is ready to be unloaded. These small problems add up. Says Decker: "We're being nickeled and dimed to death."

The next day and a half is chaotic. Subteams test and retest ideas. The problem of breaking rubber strips is solved by feeding them off a large cable spool, instead of yanking them from boxes. Warning lights are added so workers facing away from the presses will know when the machine cycle is finished. Other problems are more intransigent. A group tries to reduce excess spray in the paint booth, but the paint gun keeps clogging. Now and then, Knox or I suggest automation as a solution to a problem, but we're ignored. The mandate is for quick, cheap solutions, not major capital spending.

As the changes accumulate, we bring out a cutting torch and alter the workcell layout. We m parts bins, instal paint shield, and y out old, unnee equipment. By add an air jet to cool mounts' surface workers don't have wait as long to pa them, we halve in-p cess inventory. In we cut the distance each worker m walk per cycle from 32 feet to 17 fe

By late Wednesday afternoon, we ognize that some projects will have be left for later. "We identified a lo do," says Decker. "The real *kaizen* the next 30 days." To make sure un ished business gets done, a former pl manager, Bren Harris, will oversee low-up on our six-point "to do" list.

PRIME CULPRIT. Thursday morning, present our results to Michael J. Cros senior vice-president and general mar er of the Rubber Products Div. We h met two of our three goals: We work-in-process inventory by the geted 50% and proved productiv 23% on the Ranger and 17% on the Ae star line—reflecting different cure times different-sized par against a goal of 1 But we upped capa only by 7.5% on Ranger line and 11 on the Aerostar li short of our 20% g Still, we identified prime culprit t keeps the plant fr operating at its pe unplanned downti which was running nificantly higher t plant officials realiz

There's no feelin conquering-hero ca raderie. Perhaps w aware of how much mains to be done. Nonetheless, a mo investment of time and money has p off dramatically. A month after I le all but one of the changes we rec mended have been put in place. W nearly a dozen other plants go through a similar process, Day estima that by the end of 1995 he will have vested $2 million on the teams and th suggestions companywide—for a di payback of $12 million to $20 mill With more American manufactur adopting *kaizen* techniques and rea ing similar returns, a little investm should go a long way toward reinv rating the U. S. industrial base.

> ***Results***
> *A month later, almost all of our team's suggestions have been adopted*

MAKING *KAIZEN* PAY OFF

Kaizen—a Japanese term for "continuous improvement"—is a promising approach in the battle to boost America's manufacturing prowess. Here's what's required to make the process work:

WORKER COOPERATION A no-layoff pledge is necessary to assure workers their suggestions for productivity improvements won't cost them their jobs.

MANAGEMENT COMMITMENT Top management needs to back the *kaizen* team with the resources and authority to make sweeping changes, if need be, in search of radical efficiency gains.

MEASURABLE GOALS AND RESULTS Besides validating the team's successes, measuring enforces a reality check.

DIVERSE TEAMS *Kaizen* teams should draw from disparate backgrounds—not just manufacturing—to elicit a variety of ideas.

BIAS FOR ACTION The teams should favor immediate action on many fronts, opting for small improvements over costly, technological big fixes.

FOLLOW-UP Not everything can be done in a week, so follow-up work is needed to implement medium-term suggestions.

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140D-PAC

AP SHOTS
THE PARKING LOT

dgling pro sport emerges from the inline-skating craze

IN THE HEAT: A VIGOROUS PICK-UP GAME IN NEWPORT BEACH

ame this sport: Boosters call it the Little League of the '90s. Fans are starting to pay to the pros, and pickup games are in parking lots and side streets er the country. It's even show- in a recent movie, *Airborne!*

e up? The game is roller hockey, a t of ice hockey adapted for inline and a dry surface that's body- ing its way onto the American scene. More than a quarter-mil- nericans are playing some form of hockey, says Joseph Mireault, ex- e director of National In-Line y Assn. in Miami, an amateur roll- key organizing league.

RIDE. Numbers like that, say sup- s, are lifting roller hockey out of orts-novelty category. They're also a boost to the already wild sales of inline skates. According to a al Sporting Goods Assn. (NSGA) , 800,000 pairs of inline skates sold in 1990. In 1992, the number o 3.9 million, generating sales of nillion.

er Dennis Murphy. In the statis- azed world of professional sports, -year-old Murphy has set some record for false starts. From 1965 to 1972, he organized three different pro leagues: the American Basketball Assn., the World Hockey Assn., and World TeamTennis. Only TeamTennis survives today, and Murphy is no longer associated with it.

This time, though, Murphy is getting in on the concrete floor. He and partners Larry King and Alex Bellehumeur ponied up an initial investment of $300,000-$400,000 to form Roller Hockey International (RHI) and wrote to 3,500 contacts inviting them to join. A dozen franchises were sold at $55,000 apiece—four in California, three in Canada, and one each in Connecticut, Florida, Missouri, Utah, and Washington State. The league's first season wrapped at the end of August, with the Anaheim Bullfrogs beating the Oakland Skates 9-4.

While the teams are mostly made up of former ice-hockey players, roller hockey is hardly Mario Lemieux and the Pittsburgh Penguins. Players' salaries start at $350 a week, and the prize pot that teams share is worth under $700,000. So far, corporate sponsorship is limited to some $200,000 from pad-and-stick maker Karhu USA Inc. and Canstar Sports Inc., maker of Bauer skates.

"Right now, we're driven by the industry sponsors," says RHI's King. Down the road, RHI will shoot for "AT&T or a Budweiser or somebody that can put up $2 million or $3 million in cash support for the league and then spend $6 million to $8 million telling everybody what a great deal it is," King says.

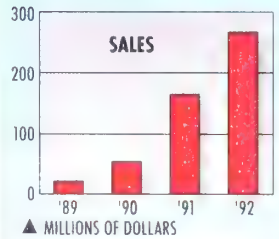
Already, though, RHI, based in Los Alamitos, Calif., has competition. ESPN has broadcast games from rival World Roller Hockey League, whose eight teams feature former National Hockey League stars Ron Duguay and Robert Picard. WRHL held all its matches in an outdoor arena at Walt Disney World last May for later telecast. "If you want to say the WRHL is constructed for TV, it is," says David McLane, president of the Indianapolis-based league.

WILLING TO WAIT. While some RHI games were televised on sports channels, RHI lacks any kind of regular TV coverage. "I think [the possibility] exists for a TV contract," says Michael Jacobsen, editor-in-chief of *Sporting Goods Dealer* magazine. King, however, seems willing to wait. "If a sport . . . has standing-room-only crowds, then it'll demand a television package. Until we have standing-room-only crowds, it'll be unrealistic to expect extensive coverage from TV."

That may be a ways off. The league champion Bullfrogs enticed 13,500 fans to the opening game at spanking-new Anaheim Arena, but average attendance was closer to 9,000. And attendance was as low as 2,300 for the Toronto Planets.

But who can divine what moves fans—especially when they start getting into the game. Larry Weindruch of the NSGA points out that the estimated 9.7 million inline skaters are "looking for more things to do on those skates." And Karhu predicts that sales of roller-hockey equipment will probably eclipse ice-hockey sales within the next year.

INLINE-SKATE SALES GO WHOOSH!



▲ MILLIONS OF DOLLARS

DATA: NATIONAL SPORTING GOODS ASSN.

Besides, not so long ago, it would have been unthinkable that ice hockey could make any headway in California. Yet these days, the ice is jammed with the L. A. Kings, the San Jose Sharks, and the Anaheim Mighty Ducks.

What roller hockey needs now is a few superstars to really hype the game. Hmmm. Can Michael Jordan skate?

By Joe Clark in Toronto

PHOTOGRAPH BY CHRIS COVATTA CHART BY ERIC HOFFMANN, BW

EDITED BY AMY DUNKIN

Investing

SCREENING STOCKS ON YOUR PC SCREEN

Sitting at a computer, Christopher Pantaleoni patiently types in a description of what for him would be perfect growth stocks: companies with less than $500 million in revenues, returns on equity above 15%, average annual earnings growth of 18%, plus 10 other characteristics. The PC whirs for 15 seconds through data on more than 5,000 stocks before eliminating all but three.

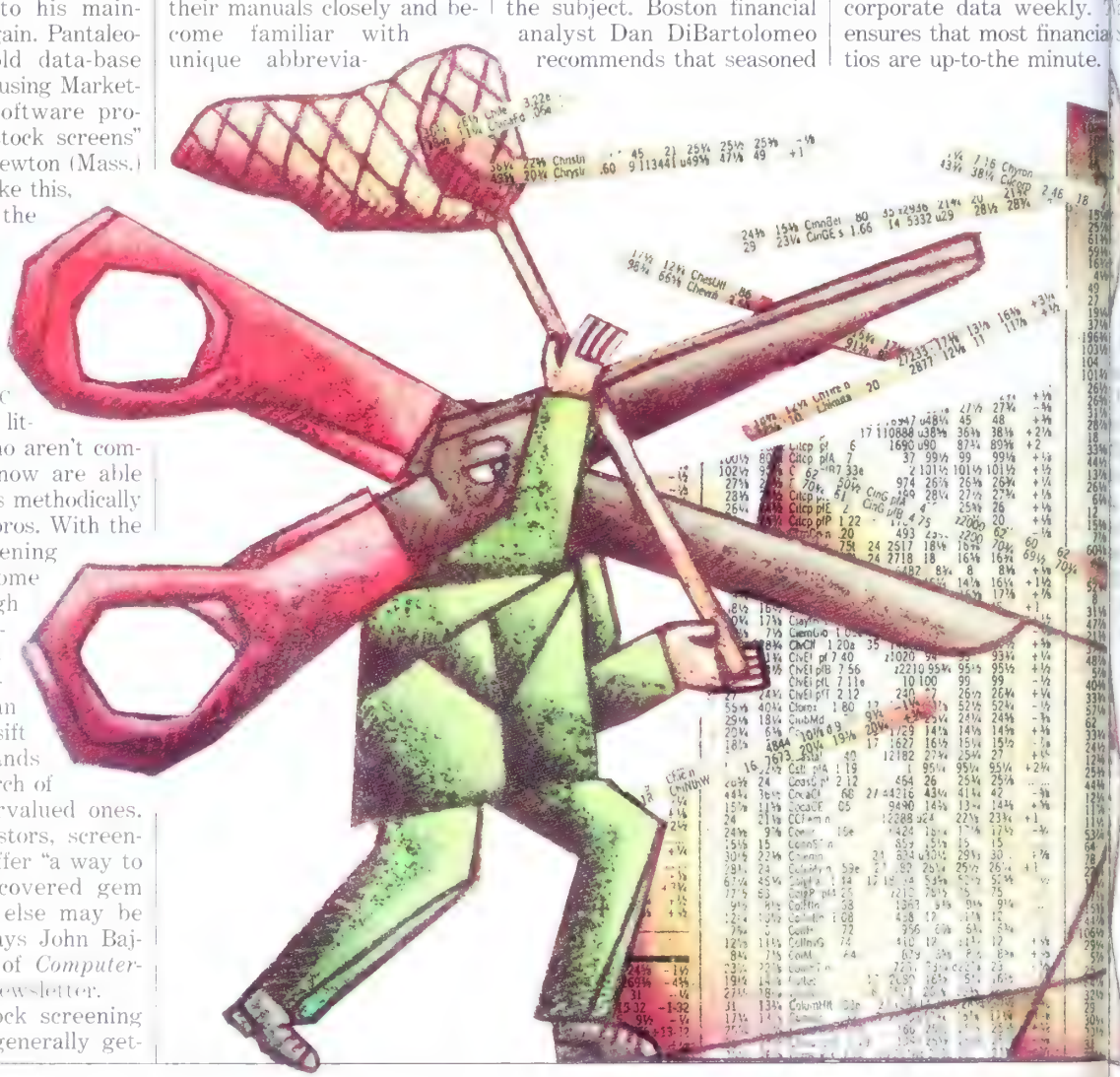
Another Wall Street wizard tapping into his mainframe? Think again. Pantaleoni, a 49-year-old data-base programmer, is using MarketBase, a $345 software program, to run "stock screens" on a PC in his Newton (Mass.) home. Screens like this, he says, "open the eyes and mind to stocks I might not have known about otherwise."

GEMS. Thanks to the ongoing PC revolution, even little investors who aren't computer experts now are able to pick stocks as methodically as Wall Street pros. With the advent of screening programs, some available through such popular on-line services as CompuServe, investors can systematically sift through thousands of stocks in search of the most undervalued ones. For many investors, screening programs offer "a way to find the undiscovered gem that everyone else may be overlooking," says John Bajkowski, editor of *Computerized Investing* newsletter.

Although stock screening programs are generally getting easier to use, it still requires some dedication—and money—to master them. The better screening programs are still only slightly simpler to learn than a spreadsheet or data-base program. And most disk-based programs cost hundreds of dollars a year (table). Many on-line services charge users for the time their PC is hooked up via modem, so learning on-line can lead to hefty charges. Before logging on, users should study their manuals closely and become familiar with unique abbreviations for financial ratios, such as "5YREG" for five-year earnings growth.

If you need a road map, the American Association of Individual Investors frequently runs suggested screens in its monthly journal (312 280-0170). One AAII screen, for example, is designed to help investors determine whether companies can sustain their earnings growth. For $20, AAII also sells a "how to" kit containing 20 past articles on the subject. Boston financial analyst Dan DiBartolomeo recommends that seasoned investors check their libr for financial periodicals, as the scholarly *Journal o vesting*, to find investm theories they can use screens.

TRADE-OFFS. On-line serv enjoy a few advantages disk-based programs, nar timeliness. While subscri to programs such as V Line's Value/Screen III r receive financial data by on-line services generally date stock prices nightly corporate data weekly. ensures that most financia tios are up-to-the minute.



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differ dramatically by
industry. What's more,
some screens will
turn up companies
that really do not
belong. The sim-
plest "growth
stock" screens, for
example, may cap-
ture mature cyclical companies that
are advancing in
their normal upturn.
To prevent this
problem, eliminate
companies that
have shown a re-
cent loss or
whose profit

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VALUE/SCREEN III 800 654-0508	$325*	1,600	52	Includes Value Line rankings. Free demo disk or $59 trial.

*Yearly costs for quarterly disks of updated financial data

DATA: BUSINESS WEEK

margins are out of kilter with their historical norms.

Experts caution that stock screening should be just the beginning of your research. Screening "is not a substitute for hands-on analysis," says Thomas Ebright, co-manager of the Pennsylvania Mutual Fund. "You still have to look beyond the numbers at the companies." Like Pantaleoni, Ebright runs screens to narrow down a long list of stocks to a handful, then does his own research to pick potential winners. To get started, you might try these simple screens:

■ **SHADOW STOCKS:** These are companies so small that their float and market capitalization aren't large enough to attract the interest of Wall Street analysts. The AAII suggests looking for companies with market caps of $20 million to $100 million, two years of growing profits, institutional ownership below 15%, and at least five years of reported data. Shadow stocks "may be an area where small investors have a better chance because they are underresearched," says DiBartolomeo.

Academics disagree whether shadow stocks, as a group, outperform the broader market. But investors can use shadow stocks as the universe for more detailed screens.

■ **ONE UP ON WALL STREET:** This is the popular strategy cited by former mutual fund manager Peter Lynch in the 1989 book of the same name. In his quest for undervalued growth stocks, Lynch looks for companies whose p-e is no more than one-half the growth rate. A word of caution: Running the screen could capture many companies with erratic, but improving, earnings. Bajkowski suggests you eliminate any company that has recorded a loss during the last five years. If the list is still too long, he also advises investors to screen out companies whose earnings and profit margins haven't risen over each of the last three years.

■ **DIVINING DIVIDENDS:** Some market experts believe conservative investors should focus on depressed blue-chip stocks whose dividend yields have risen to an unusually high level. If the dividend can be sustained, the stocks may be poised for a runup when the company's fortunes improve. To filter out companies that may cut their dividend, De Paul University finance professor Frederic Shipley recommends dropping companies paying out more than 60% of earnings. (The exception is utilities, which often pay out 75% or more.)

BUSINESS WEEK ran such a screen on Telescan, looking for Big Board companies with market caps above $2 billion, p-e ratios near their historic lows, and relatively consistent earnings over the last five years. Three of the top picks: Philip Morris, American Home Products, and Merck.

■ **CANSLIM:** This is the acronym for the theory popularized by *Investor's Business Daily* founder William O'Neil. O'Neil studied the 40-year record of growth stocks and isolated these common traits among successful ones: annual profit growth of 20%, five years of consecutive earnings growth, and some institutional ownership, but not more than 20%. O'Neil also looks for companies whose stock price is rising faster than 80% of all other stocks, a technical indicator known as relative strength. He further focuses on concerns with less than 25 million shares. CANSLIM works best on Telescan because, unlike other services, Telescan also provides technical analysis. But Value Line users can substitute the timeliness ranking for relative strength.

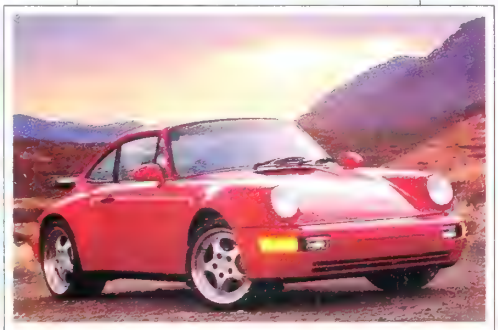
Critics caution that CANSLIM stocks can be risky in volatile markets, like today's, since market pros will crucify growth stocks that don't meet Wall Street's earnings expectations. That's further evidence screening offers no guarantee you will be able to outperform the market. But using screens to winnow a broad range of stocks down to a handful makes it easier to do the serious research that can lead to a payoff.

Dean Foust

Autos

A PAIR OF BRUTES FOR THE DARING

It's frightening how speedy sports cars are these days. Take the new Toyota Supra turbo and the just-upgraded Porsche 911 Turbo 3.6. Both boast heart-stopping acceleration and the cornering agility of a hungry cheetah. They look downright dangerous, too, with flared fenders, beefy tires, and outrageous rear spoilers. But the Porsche carries a much scarier price tag: $99,000—more than twice the Supra's sticker.



PORSCHE'S 911 TURBO 3.6: ONLY $99,000

Only a buff wouldn't find the performance numbers mind-numbing. The Porsche rockets to 60 mph in just 4.5 seconds and tops out at a white-knuckled 174 mph, which is useful if you live near a speedway. The Supra turbo hits 60 mph in just under 5 seconds; top speed is electronically limited to a sedate 155 mph. Stopping is quick, too. Both cars get back to zero in 120 feet, about 40 feet sooner than your average family sedan.

PUNISHING RIDE. The cars have distinct personalities. Purists may prefer the Porsche's raw, brutish feel. The turbocharger kicks in with a vicious punch that can send the rear end sliding during hard cornering, especially on slick pavement. On rough roads, the din is annoying, and the stiff ride punishing.

The Porsche's virtually useless back seat and cramped luggage space come as no surprise. On the other hand, the dashboard controls could be friendlier. The climate controls are hidden behind the steering wheel. The unmarked sunroof switch is out of sight, under a dash panel, and there are two outside-mirror power controls—in separate locations.

TOYOTA'S SUPRA TURBO: DRIVER FRIEN

The Supra, by contrast, offers a more refined driving experience. The twin turbos engage much more gradually, making the throttle easier to control. There's even an electronic traction-control system that automatically keeps the rear wheels from spinning, unless you turn it off. The Supra's ride is stiff, but not brutal, absorbing small bumps with ease. And the car is a bit quieter, too. One downer: The steering wheel feels a bit dead and telegraphs poorly how the tires are gripping.

Inside, dash wraps cockpit-around the driver. Cont and gauges are unclutte and easy to use; only the dio switches are a bit con cated. The back seats are midgets at best. But with Supra's hatchback body st there's more than twice Porsche's luggage space.

Both cars have the la safety features, such as air bags and antilock bra And their comfortable, sc ed seats keep you firml place, even during spir cornering. But the Supr way ahead on price: It st at $42,800. There are less pensive, nonturbo version both cars. But once yo driven these hard-charger will be a lot harder to se for less. *David Wood*

Smart Money

IS YOUR LUXURY-TAX REFUND JUST SITTING THERE?

The 10% excise tax on luxury goods caused a lot more excitement when it was enacted in 1990 than when it was repealed, on Aug. 10, 1993, retroactive to the first of the year. Although retailers of yachts, planes, furs, and jewelry say there was near-universal protest at paying the tax, they have had—since it was revoked with the passage of President Clinton's budget bill—hardly an inquiry from the customers now entitled to refunds.

Maybe those people haven't gotten around to applying yet or don't realize money is due them. If you bought a luxury item this year between Jan. 1 and Aug. 10, you can get back any tax you paid on the portion of the price above $250,000 for a plane, $100,000 for a boat, or $10,000 for fur or jewelry. The only luxury items the new law did not exempt from the excise tax are high-priced cars. The threshold is $30,000 in 1993, but it will increase to $32,000 in 1994 to allow for inflation.

You must return to the store or dealer with the receipt to get your money back. Retailers have the option of reimbursing you on the spot or waiting until they receive their refund from the government. It typically takes up to eight weeks for the Internal Revenue Service to part with the dough.

Forcing buyers to go back to the seller is a way to make it tougher for them to get the refund, speculates tax consultant Stuart Becker, president of Becker & Co. in New York. The taxpayer should be able to file a form with the IRS, he says. But only if you imported a luxury item and paid the tax directly by filing a return with the IRS you go straight to the g ernment for reimburseme Taxpayers have three ye after the due date of the o inal returns or two years ter the tax is paid, whiche is later, to request a refu

The financial burden the government from re bursing taxpayers won't vast: Uncle Sam collec $305 million from the luxu tax in fiscal 1992 (enc Sept. 30, 1992), but $276 r lion of that was from cars

Retailers voice relief t the tax was lifted. "Oth wise, we would have had close our doors," says T Hood, CEO of Hood Enterp es in Portsmouth, R.I., wh builds Little Harbor Cust Yachts at $1 million and Hood says some custom put off buying, hoping tax would be repealed. those of you who took t gamble, congratulations. won the bet. *Amey St*

A BREAK ON LUXURY

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DATA BUSINESS WEEK

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EXECUTIVE PROGRAMS

Fitness

THE LONG-DISTANCE SWIMMER DOESN'T HAVE TO BE LONELY

Endurance swimming is surely the loneliest sport, with its long, grueling workouts. Yet it's one of the fastest-growing athletic pursuits among fitness-conscious adults, and it's on its way to becoming downright convivial.

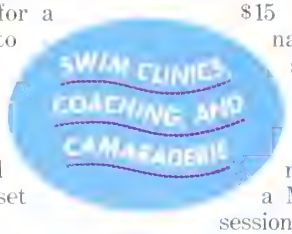
Thanks go in large part to the Masters swimming program, an international network of clubs that offer supervised workouts and racing meets for adults. U. S. Masters membership has more than doubled in the past decade, to about 27,000 swimmers at 450 YMCA, community center, and university clubs around the country. Some offer swim workouts every hour from the early morning into the night. "A lot of people like the structure and working out with others," says Dorothy Donnelly, executive secretary of U. S. Masters.

POWER TWEAK. The Masters swimming program has much to offer even the most lane-jealous lap swimmer. There's the chance to train regularly with other swimming enthusiasts. There's the camaraderie. And there's the racing, in which 40% of members participate. Teams from different clubs compete against one another in both regional and national meets. Top Masters times, even among 40-year-olds, now run surprisingly close to those of Olympic contenders. A 41-year-old Florida dentist recently broke a national Masters record in his age group with a 56.25-second time in the 100-meter freestyle. The American record is 48.42 seconds.

The program's greatest draw may be the opportunity to improve one's strokes through swim clinics, camps, and the coaching offered at workouts. Swimming is all form: An adjustment here and a tweak there can add enormous power to a stroke. A poor swimmer may get a good workout but won't get nearly the enjoyment of a trained swimmer, cover any real distance, or see very much improvement.

Also, strokes have changed enormously, even since the innovative Mark Spitz triumphed in the 1972 Olympics. Slash and splash have given way to serpentine, almost balletic movements that are a marvel to behold. The newer strokes are also a lot easier on creaky, middle-aged bodies, and, though not overly complicated, they nevertheless require patient study under a knowledgeable coach.

Training with the Masters is not for the fainthearted. Workouts may run 60 to 90 minutes three times a week and typically cover 2,500 yards, or about a mile and a half per session. Participants swim intervals, usually with a warm-up of, say, 400 yards, followed by sets ranging from 50 to 800 yards, with short rest periods in between. A common set might call for 800 yards of breast stroke with a 10-second rest between 100s; another allows for a certain time to complete a distance, so that the faster you swim, the longer the rest period before the next set begins.



While many swimmers prefer the steady pace of uninterrupted distance swimming, interval training has the advantage of pushing the heart rate higher, thus build greater aerobic fitness. to say, though, all those won't necessarily translat weight loss. Unlike runn swimming is a surprisingly efficient shedder of fat.)

"OLD BODS." The largest M ters age group is 35 to Many of the newer mem have come in as triathle liked the program, and sta with their club. "After many years, no matter h well you've taken care yourself, your bones are as adaptable," notes Don ly, 71, who wa freestyler on the U. S. Olympic te "Running and bik are not as good the old bod." Mast ages currently ra from 19 to 90, competition is es cially brisk am the retired set. one recent natio meet, 17 competit were in the 75-t group.

To find a M ters club near y send a self-addresse stamped envelope U. S. Masters Sw ming, 2 Peters A Rutland, Mass. 01 or call 508 886-6 A guide listing m than 1,000 pools around country that are open to s ous swimmers costs $5. I vidual Masters club d average $25 a year, of wh $15 goes toward national mem ship, includin subscription *Swim Maga* and the oppo nity to drop in a Masters work session anywhere in country, often at no cha So even when you're on road, you can always f aquatic soul mates to tr with. *E. S.*

Worth Noting

■ **COLLEGE COSTS.** Wondering how much it will cost to put your 9-year-old through Princeton? Free software from John Hancock Financial Services (800 633-1809) projects tuition costs at some 1,500 public and private colleges across the country. Once you have figured future college costs, the interactive disk helps you start a savings plan for the vast sums required.

■ **RATING INSURERS.** Before you pick a life-insurance policy, compare the financial strength of the carriers you're considering. For $15, Robert S. Warner Co. will prov ratings and three pages o nancial analysis from A. Best, Standard & Poo Moody's, and Weiss Resea on up to three insurers your choice. Call 800 497-6

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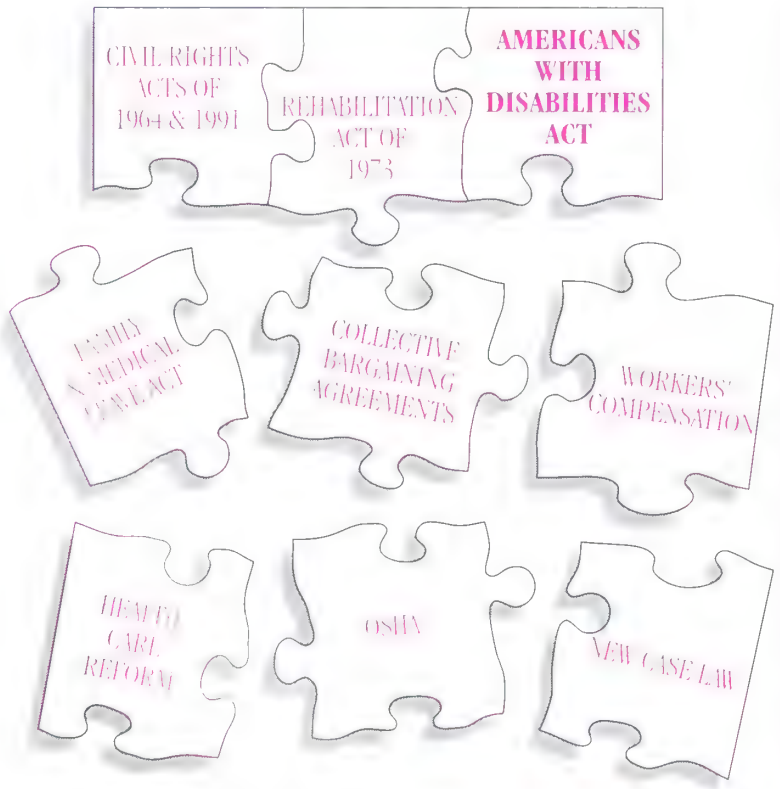

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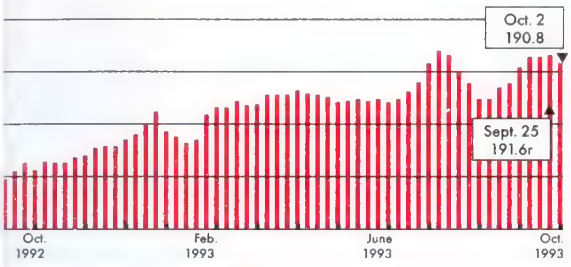
usinessWeek Index

DUCTION

from last week: −0.4%
from last year: 5.7%

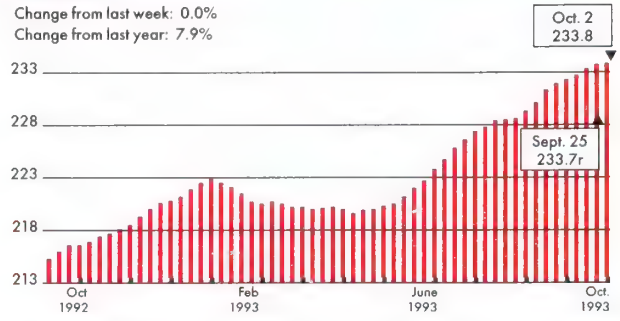
1967=100 (four-week moving average)



oduction index dropped during the week ended Oct. 2. On a seasonally l basis, output declines in steel, electric power, coal, lumber, and rail-freight offset increases in the production of autos, trucks, paperboard, and paper. il refining output was unchanged. Before calculation of the four-week moving , the index fell to 190.5, from 191.6. For the entire month of September, r, the index was up, to 191.1, from 188.1 in August.

LEADING

Change from last week: 0.0%
Change from last year: 7.9%



The leading index increased slightly in the week ended Oct. 2, led by the rallies in the financial markets. In addition to higher stock prices and lower bond yields, the index was lifted by the faster pace of real estate loans. On the negative side were slower growth rates of materials prices and M2, plus a rise in business failures. Before calculation of the four-week moving average, the index rose to 233.7, from 232.8. For September, the index increased to 233.7, from 232 in August.

DUCTION INDICATORS

	Latest week	Week ago	% Change year ago
0/9) thous. of net tons	1,823	1,769#	11.2
10/9) units	114,988	123,760r#	−1.9
(10/9) units	108,964	107,496r#	25.0
C POWER (10/9) millions of kilowatt-hours	55,234	56,063#	2.5
OIL REFINING (10/9) thous. of bbl./day	13,841	13,872#	2.6
0/2) thous. of net tons	18,790#	19,409	1.7
OARD (10/2) thous. of tons	827.0#	799.0r	1.0
10/2) thous. of tons	798.0#	782.0	−0.5
(10/2) millions of ft.	476.1#	497.2	−0.2
EIGHT (10/2) billions of ton-miles	21.7#	21.8	1.4

: American Iron & Steel Institute, *Ward's Automotive Reports*, Edison Electric Institute, Petroleum Institute, Energy Dept., American Paper Institute, WWPA[1], SFPA[2], Association an Railroads

EIGN EXCHANGE

	Latest week	Week ago	Year ago
E YEN (10/13)	106	105	120
MARK (10/13)	1.60	1.63	1.46
POUND (10/13)	1.52	1.52	1.69
FRANC (10/13)	5.65	5.67	4.96
AN DOLLAR (10/13)	1.33	1.34	1.25
RANC (10/13)	1.41	1.42	1.30
N PESO (10/13)[3]	3.114	3.115	3.132

: Major New York banks. Currencies expressed in units per U.S. dollar, except for British pressed in dollars

CES

	Latest week	Week ago	% Change year ago
0/13) $/troy oz.	366.400	356.250	6.6
RAP (10/12) #1 heavy, $/ton	129.00	112.50	44.1
UFFS (10/12) index, 1967=100	212.3	211.8	7.0
(10/9) ¢/lb.	85.5	86.7	−19.2
UM (10/9) ¢/lb.	51.9	52.0	−5.6
(10/9) #2 hard, $/bu.	3.39	3.24	−4.8
(10/9) strict low middling 1-1/16 in., ¢/lb.	55.07	56.19	10.3

: London Wednesday final setting, Chicago market, Commodity Research Bureau, Metals insas City market, Memphis market

LEADING INDICATORS

	Latest week	Week ago	% Change year ago
STOCK PRICES (10/8) S&P 500	460.55	460.73r	13.5
CORPORATE BOND YIELD, Aaa (10/8)	6.72%	6.69%	−15.2
INDUSTRIAL MATERIALS PRICES (10/8)	93.8	94.0	−3.4
BUSINESS FAILURES (10/1)	355	340	1.7
REAL ESTATE LOANS (9/29) billions	$403.1	$402.0r	0.5
MONEY SUPPLY, M2 (9/27) billions	$3,500.8	$3,503.9r	1.5
INITIAL CLAIMS, UNEMPLOYMENT (9/25) thous.	329	340	−17.5

Sources: Standard & Poor's, Moody's, *Journal of Commerce* (index: 1980=100), Dun & Bradstreet (failures of large companies), Federal Reserve Board, Labor Dept. CIBCR seasonally adjusts data on business failures and real estate loans

MONTHLY ECONOMIC INDICATORS

	Latest month	Month ago	% Change year ago
BUSINESS WEEK PRODUCTION INDEX (Sept.)	191.1	188.1r	5.5
BUSINESS WEEK LEADING INDEX (Sept.)	233.7	232.0r	7.9
EMPLOYMENT, CIVILIAN (Sept.) millions	119.5	119.7	1.5
UNEMPLOYMENT RATE, CIVILIAN (Sept.)	6.7%	6.7%	−10.7

Sources: BW, CIBCR, BLS

MONETARY INDICATORS

	Latest week	Week ago	% Change year ago
MONEY SUPPLY, M1 (9/27)	$1,111.7	$1,113.4r	12.2
BANKS' BUSINESS LOANS (9/29)	271.2	270.6r	−2.9
FREE RESERVES (9/29)	1,056r	337r	14.4
NONFINANCIAL COMMERCIAL PAPER (9/29)	156.5	160.6	14.5

Sources: Federal Reserve Board (in billions, except for free reserves, which are expressed for a two-week period in millions)

MONEY MARKET RATES

	Latest week	Week ago	Year ago
FEDERAL FUNDS (10/12)	3.07%	3.04%	3.20%
PRIME (10/13)	5.75–6.00	6.00	6.00
COMMERCIAL PAPER 3-MONTH (10/12)	3.26	3.26	3.30
CERTIFICATES OF DEPOSIT 3-MONTH (10/13)	3.22	3.23	3.25
EURODOLLAR 3-MONTH (10/8)	3.15	3.14	3.10

Sources: Federal Reserve Board, First Boston

ta in the production indicators are seasonally adjusted in computing the BW index (chart); other components (estimated and not listed) include machinery and defense equipment.
rn Wood Products Assn. 2=Southern Forest Products Assn. 3=Free market value NA=Not available r=revised NM=Not meaningful

Index to Companies

This index gives the starting page for a story or feature with a significant reference to a company. Most subsidiaries are indexed under their own names. Companies listed only in tables are not included.

A

Alcan **46**
Alcoa **46**
Alumax **46**
American Brands **50**
American Express **50, 102**
American Home Products **142**
Ameritech **38, 102**
Ames Department Stores **120**
Ansonia Copper & Brass **114**
Apple Computer **32, 56, 124**
Ascom Timeplex **124**
Astra **58**
AT&T **32, 38, 42, 56, 102, 106**

B

Bank of Montreal **54**
Banque Nationale de Paris **60**
Bell Atlantic **32, 36, 37, 38, 39, 102**
BellSouth **32, 39**
Berjaya Lottery Management **118**
Boeing **12**
Booz, Allen & Hamilton **96**
Borland International **126**
Bristol-Myers **102**
British Sky Broadcasting **58**
Broderbrand Software **126E**
BW/IP Holdings **108**

C

Cable & Wireless **56**
Cablevision **32, 38**
Canadian National Railways **54**
Canal Plus **58**
Canstar Sports **141**
CardioLogic Systems **95**
Cargill **116**
Cathay Pacific Airways **107**
Challenger Gray & Christmas **24**
Champion International **106**
Charter Medical **118**
Chrysler **134**
Cigna **102**
Citicorp **50**
C-Mac Industries **54**
Colonia **60**
Colony Advisors **116**
Columbia Pictures **32**
Comcast **32**
Community Psychiatric Centers **118**
Cox Enterprises **39**
CWC **124**

D

Data Resources **29**
Dendrite International **124**
Detroit Diesel **118**
Digital Equipment **124**
Dow Chemical **106**

E

Eastman Kodak **50**
EBI Insurance **114**
Elf Aquitaine **60**
Eli Lilly **50**
Equity Residential Properties Trust **118**
Ericsson (L.M.) **58**
Eskimo Pie **46**
ESPN **141**
Executive KnowledgeWorks **106**

F

Ferrofluidics **108**
First Boston **15, 46**
Fleet Bank **108**
Ford **12, 102, 134**
Freudenberg-NOK **134**
Fujitsu **128, 129**
Furman Selz **38**

G

Gartner Group **124, 126**
GE **42, 102**
General Foods **50**
Genesis Merchant Group **118**
Glaxo **102, 106**
GM **15, 95**
Goldman Sachs **116**
Groupe Suez **60**

H

Heller Financial **116**
Hewlett-Packard **106**
Hillwood Development **116**
Hoffmann-La Roche **96**
Honda **128**

I

IBM **12, 15, 32, 56, 126E**
Intel **38, 56, 58, 102**
International Data **124**
International Totalizator **118**
Itel **118**

J

J.C. Penney **120**
John Deere **124**
Jones Intercable **38**

K

Karhu USA **141**
Kmart **120**
Knowledge Adventure **126E**
Lasermedics **95**
Lehman Brothers **114**
Liberty Media **36, 38 ,39**
Lotus Development **126**
Lynch, Jones & Ryan **29**

M

Magna International **54**
Marcum National Gas **118**
Massachusetts Financial Services **124**
Matsushita Electric Industrial **38**
McGraw-Hill **30, 42**
Medco Containment Services **50**
Merck **42, 50, 96, 142**
Merrill Lynch **29, 116**
Microsoft **32, 38, 126, 126E**
Miller Brewing **46**
Mitsubishi Electric **56**
Mizuno **132**
MMS International **30**
Montgomery Ward **120**
Motorola **56, 58, 102**
Musitek **126E**

N

Nippon Telegraph & Telephone **56**
Nokia **58**
Nynex **32, 38, 39, 56**

O

Oce **60**
Ocom **118**
Orion Capital **114**

P

Paramount Communications **32, 38, 39**
Patrick Petroleum **118**
PC Data **126E**
Pennsylvania Mutual Fund **142**
Penske **118**
Perkin-Elmer **124**
Pharmacy Management Services **114**
Philip Morris **50, 142**
Porsche **144**
Price Waterhouse **45**
Procter & Gamble **15**
Prudential Home Building **116**

Q

Qualcomm **118**
QVC **32, 39**
Reader's Digest Association **126**
Recognition International **118**
Regional Financial Associates **24**
Reynolds Metals **46**
Reynolds (R.J.) **50**
Roche **58**
Royal Bank of Canad
Rubbermaid **106**

S

Salomon Brothers **24**
Sanford C. Bernstein
Sanyo Electric **128**
Sears Roebuck **120**
SGS-Thomson Microelectronics **58**
Smith Barney **118**
SoftAd **124**
Software Publishing
Sony **32, 38**
Southwestern Bell **38**
Strain Consultants **1**
Suntory **128**
Svenska Cellulosa **58**

T

Target **120**
Tele-Communications **36, 37, 38, 39**
Texas Instruments **58**
Time Warner **32, 38,**
Towers Perrin **108**
Toyota **144**
Travelers **114**
Turner Broadcasting

U

United Technologies
U S West **32, 38**

V

Van Metre **116**
Viacom **32, 38, 39**
Visual Numerics **95**

W

Wainwright Bank & Trust **108**
Wal-Mart **50, 120**
Walt Disney **32**
Warner-Lambert **96**
WordPerfect **126**
Wyatt **24**

Y

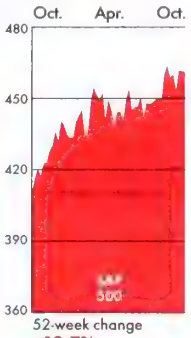
Yes! Entertainment **95**

vestment Figures of the Week

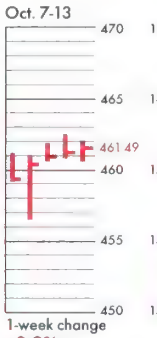
NTARY

Jones industrial average above the 3600 level in—but just barely. With my still not out of the cyclicals were lackluster. action was in small-cap hich surged to new highs. of gold rebounded ending gold stocks higher. And as the table ge shows, Lexington Investments, a mutual invests solely in South old mining shares, has l a stunning 166% over ear.

STOCKS

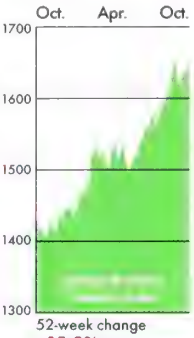


52-week change
+12.7%



1-week change
+0.2%

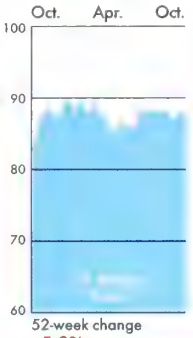
BONDS



52-week change
+15.0%

1-week change
+0.1%

THE DOLLAR



52-week change
+5.3%

1-week change
−0.3%

KET ANALYSIS

CKS	Latest	% change Week	% change 52-week
ES INDUSTRIALS	3603.2	0.1	12.8
COMPANIES (S&P MidCap Index)	176.5	0.8	23.8
MPANIES (Russell 2000)	257.9	1.4	35.5
ANIES (Russell 3000)	268.5	0.4	16.2

N STOCKS	Latest	% change (local currency) Week	% change (local currency) 52-week
(FINANCIAL TIMES 100)	3080.9	−0.6	19.7
IKKEI INDEX)	20,038.4	−2.3	15.5
(TSE COMPOSITE)	4111.8	1.4	28.7

FUNDAMENTALS	Latest	Week ago	Year ago
90-DAY TREASURY BILL YIELD	3.10%	3.04%	3.00%
30-YEAR TREASURY BOND YIELD	5.92%	6.01%	7.50%
S&P 500 DIVIDEND YIELD	2.77%	2.74%	3.09%
S&P 500 PRICE/EARNINGS RATIO	21.7	21.7	21.1

TECHNICAL INDICATORS	Latest	Week ago	Reading
S&P 500 26-week moving average	450.7	450.2	Positive
Stocks above 26-week moving average	63.8%	63.4%	Neutral
Speculative sentiment: Put/call ratio	0.43	0.41	Positive
Insider sentiment: Vickers sell/buy ratio	2.61	2.73	Negative

STRY GROUPS

BRIDGE INFORMATION SYSTEMS INC.

EEK LEADERS	% change 4-week	% change 52-week	Strongest stock in group	% change 4-week	% change 52-week	Price
MINING	24.8	49.3	PLACER DOME	31.9	89.4	22 1/4
TAL MANAGEMENT	16.1	46.8	NATIONAL MEDICAL ENTERPRISES	46.8	11.0	11 3/8
AND MOTELS	15.0	114.0	PROMUS	18.3	320.6	79 1/8
D GAS DRILLING	14.9	23.9	ROWAN	30.6	15.7	10 1/8
LTY APPAREL RETAILERS	13.4	11.1	TJX	23.3	41.5	32 3/8
EEK LAGGARDS	**% change 4-week**	**% change 52-week**	**Weakest stock in group**	**% change 4-week**	**% change 52-week**	**Price**
ANCE BROKERS	−9.4	−9.4	ALEXANDER & ALEXANDER SVCS.	−20.9	−23.3	19 3/8
EERING AND CONSTRUCTION	−7.4	3.9	FLUOR	−9.5	−6.0	39 1/2
CONTAINERS	−7.1	−16.6	STONE CONTAINER	−15.2	−45.1	7
CHAINS	−6.7	13.0	GREAT ATLANTIC & PACIFIC TEA	−12.5	17.3	25 3/8
NE TOOLS	−6.1	44.6	CINCINNATI MILACRON	−7.8	74.1	23 1/2

UAL FUNDS

MORNINGSTAR INC

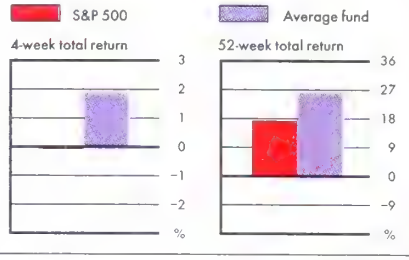
total return	%
TON STRATEGIC INVESTMENTS	30.9
SERVICES GOLD SHARES	21.7
K INTERNATIONAL INVESTORS	15.7

otal return	%
TON STRATEGIC INVESTMENTS	166.3
GROWTH	100.7
BARNEY SHEARSON SPECIAL EQUITIES B	74.6

LAGGARDS

Four-week total return	%
PILGRIM CORPORATE UTILITIES	−4.9
EQUIFUND ITALIAN NATIONAL FIDUCIARY EQUITY	−4.2
SMITH BARNEY SHEARSON TELECOMM. INCOME	−3.3

52-week total return	%
PILGRIM CORPORATE UTILITIES	−12.1
YACKTMAN	−6.8
JENSEN	−4.3



TIVE PORTFOLIOS

DRI/McGRAW-HILL

nounts
t the present
$10,000
one year ago
ortfolio

ges indicate
otal returns

Foreign stocks
$14,346
+2.20%

Treasury bonds
$12,700
+1.03%

U.S. stocks
$11,588
−0.02%

Gold
$10,475
+1.92%

Money market fund
$10,221
+0.04%

this page are as of market close Wednesday, Oct. 13, 1993, unless otherwise indicated. ups include S&P 500 companies only; performance and share prices are as of market close Oct. 12. Mutual fund returns are as of Oct. 8. Relative portfolios are valued as of Oct. 12. A more detailed explanation of this page is available on request.

SELLING TO THE NEW GLOBAL MIDDLE CLASS

One great economic lament has emerged full-throated from the post-cold-war period: Where is demand? Europe and Japan remain mired in recession. The U. S. expands only fitfully. Where, business asks, can it find the kind of robust demand for products and services that generates sizzling 4% growth, and with it, lots of jobs?

Psst! Want access to about 400 million members of a new global middle class, one that's growing so fast it will double in a mere decade? About one-quarter of them are ex-communists, half used to be locked away in centralized, autarkic societies, and the rest are graduates of what were once Third World countries. Today, they're all new participants of the global market economy, hungry for goods and services.

The advent of a global middle class is a new phenomenon that Corporate America has barely discovered. For many years, the market-oriented, capitalist trading system was composed of North America, Japan, and Europe—some 800 million people by the mid-1980s. But now China, Eastern Europe, Russia, and Latin America have all "gone market." The Four Asia Tigers have taken off, and a second pack of Emerging Tigers is right behind them. Even India, with its huge middle class, is in the throes of opening itself to the international economy. The new total for people participating in the open global market? Three billion and counting.

Explosive economic growth within newly market-oriented nations has sent the number of people that one might consider middle class soaring. Today, some 10% of China's 1.2 billion population can own their own homes and have TVs. Nearly half of the people in South Korea, Taiwan, Hong Kong, and Singapore have worked their way into the middle class. And in Thailand, Indonesia, and Malaysia, up to 20% of the population is headed there, too. Tens of millions more are in Mexico, Chile, and Argentina, soon to be joined by people from Eastern Europe, Russia, and the Middle East.

To date, the historic expansion of the market economy to global dimensions has been mourned by most American businesses and workers. They have focused on the supply side—the sudden flood of inexpensive goods and labor and increased competition coming from overseas. U. S. companies have been preoccupied with holding down wages and prices and cutting jobs. It's time to focus on the surging demand side. The new global middle class is a rich market. Message to Corporate America: Get out there and sell.

HELP THE FDA CUT THE FAT

An efficient government bureaucracy has always been a classic oxymoron. But it doesn't have to be that way. Just look at what's happening at the Food & Drug Administration. Traditionally, the FDA has been about as swift as an arthritic turtle. Its leisurely ivory-tower culture was worlds away from the fiercely competitive industries the agency regulates. When it came to getting drugs approved, FDA reviewers were interested only in not making the wrong decision, not in making decisions fast. Companies lost years of potential sales as their applications for new-product approvals were endlessly scrutinized.

But under Dr. David A. Kessler, the FDA is proving that hidebound bureaucracies can change. In an echo of what's happening in the private sector, Kessler's management team is removing or streamlining layers of middle management, is reorganizing key parts of the agency along product lines instead of scientific disciplines and replacing antiquated procedures with modern accounting methods and information systems. As a result, the agency is whittling away big backlogs of applications, speeding up some drug reviews, and getting out new regulations faster than ever before. It's also vowed to halve average drug-review time by 1997.

The reinvention of the FDA has a long way to go. Despite Kessler's efforts, the agency is still struggling with reams of government-wide rules, such as those that make buying office supplies more complicated than a lab rat's maze. The FDA is taking the first steps toward a new model of a government agency, but it can go only so far unless the entire federal system is changed. Vice-President Gore's Reinventing Government couldn't have a better place to start than here.

CANADA'S FREE-TRADE PHOBIA

As Canada prepares for its Oct. 25 national election, many Canadians remain convinced that the 1989 U.S.-Canada Free Trade Agreement was a poor deal. Their reaction is understandable, if misguided.

Free trade helped spark the widest restructuring of the Canadian economy in years. More than 300,000 manufacturing jobs were lost, pushing unemployment to a stunning 11.3%. But now, the benefits of free trade are becoming increasingly apparent. A new Canada is emerging, dominated by companies focusing on the North American market.

Many of these export-oriented companies are having remarkable success in the U. S.—so much so that Canada's merchandise trade surplus with the U. S. could hit a record high this year. Add to this an inflation rate that is running under 2%, with productivity increasing smartly, and Canada's prospects haven't looked so good in years.

Unfortunately, this bright future is still jeopardized by Canada's bloated federal and provincial governments. For years, these governments have run huge deficits to support a generous network of social programs, from baby nurses to universal health care. Such spending has now pushed Canada's net government debt to nearly 90% of gross domestic product. The next government must either cut spending or risk a financial crisis.

As the election approaches, there is growing concern that it will produce a government too weak to tackle the deficit problem. We hope not. Like free trade, cutting Canada's deficits will require some short-term pain. But it can ultimately make the country more competitive around the world.

We all share the same goals in business and in life. Security... protection...trust. What every man, woman and child seeks from birth. What we at The Travelers have been dedicated to providing for 129 years.

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Mary Leary
Director, V.P. and Controller
W. C. Maintenance
Oakland, CA

Linda Reynolds
Senior Sales E
Ruckus Dallie
San Francisco

SO WHAT'S NEW?

The 3 Rs for the '90s

Reduce, reuse and recycle. For Mary Evans, VP and Controller for Waste Management in Oakland, CA, those are more than catchy words.

They're part of a philosophy for an entire industry.

But when the 1989 Loma Prieta earthquake forced the company to move their offices, Mary found herself faced with the challenge of making that philosophy work in an unexpected way: turn an empty warehouse into office space for 200 co-workers. And do it efficiently, without unnecessary expense.

"I volunteered for this project but, frankly, I had very little day-to-day facilities experience," says Mary.

So Linda Reynolds over at Rucker Fuller, a Steelcase dealer, helped with that. Linda understood the problems Mary would be facing and offered a menu of services from space planning to furniture refurbishing to move management.

"Linda's solution wasn't just to sell us new office furniture," Mary adds. "Instead, she worked out a standards program to accommodate furniture we already had.

"The installation seemed to be as important to Linda and her team as it was to us. At one point she even canceled her vacation to make sure everything was installed correctly and on time.

"This project allowed us to do more than create an environment that helps our employees work comfortably and more effectively," explains Mary.

"It helped us practice what we preach."

Note: If you're like Mary Evans and need help with an office project—or even if you just want to know what's new—please call your Steelcase dealer or ***1-800-333-9939*** *and ask.*

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